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# **IFRS 2005 in Turkey; Can We See the Evidences on the Financial Reports of the Companies Listed?**

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## **Abstract**

The Turkish economy has been emerging one during the last decades. So, has been the Turkish Capital Market. This study focuses on the IFRS applications in 2005 in Turkey. Particularly has dealt with the following research questions: First, what has been the position statement of the goodwill and the deferred taxes on the financial statements investigated? Second, what has been the importance of the amounts of the goodwill and the deferred taxes on financial statements investigated? In order to find out the reasonable answers to the questions above, the financial reports IFRS applied of the top 100 companies listed on the Istanbul Stock Exchange have been analyzed. Data available on the web pages were obtained from financial reports of those. The empirical research was conducted through a statistical software package. The financial statements as of December 31, 2003, 2004, and 2005 have been covered by the study. The results have shown the impacts of the items covered in the study on the financial positions of the companies investigated.

*Key words: IFRS, Emerging Economies, Goodwill, Deferred Taxes.*

Note: This is prepared to be presented at the Financial Reporting and Business Communication Conference to be held on 5<sup>th</sup> and 6<sup>th</sup> July 2007 Cardiff Business School, Wales, UK.

# **IFRS 2005 in Turkey; Can We See the Evidences on the Financial Reports of the Companies Listed?**

## **Introduction**

The large corporate failures since 2000 have raised global issues for ensuring confidence in market foundations. The global issues have included corporate governance, auditor's independence, accounting standards and practices, auditing standards and practices, disclosures, etc.

Besides, as the robust forces of globalization have prompted more countries to open their doors to foreign investment, and businesses have been expanding across borders, both the public and private sectors have been increasingly recognizing the benefits of having a commonly understood financial reporting framework. This has been valid for the strong globally accepted auditing standards as well.

One can argue that there has been no one who did not hear about the IFRS International Financial Reporting Standards in accounting and auditing field. The IFRS has been a global trademark of the IASB. The main objective of IFRS has been to meet the information needs of investors in international capital markets, and the standards are increasingly designed to fulfill that role alone.

IFRS 2005 as idiom might has been accepted a global trademark. It has been also a thunderstorm, a hurricane, or a phenomenon for some people related since many stakeholders have been engaging on that as of January 1<sup>st</sup> 2005.

- Certain international standard setters and regulators have been trying to push the IFRSs in the practices around their territories. IFAC International Federation of Accountants, IOSCO International Organization for Security Exchange Commissions, Basel Committee, etc have been certain examples. Each of those has had a special mission to push international standards related to strengthen, robust, and global financial reporting and auditing for the public interest.
- Certain national standard setters and regulators have also been trying to push the IFRSs in the practices around their countries. Australian Securities and Investments Commission (ASIC), national standard setters or regulators in EU, Capital Market Board of Turkey have been a few examples from all over the world. Australia had almost two-year transition period to full IFRS implementation (White, 2006). The context of the requirement for all listed companies in EU to produce IFRS reports

from 2005 started with the financial services action plan that was launched at Lisbon Summit in 2000 (Birch, 2006). At this time, the objective of the EU Legislation was to be introduced efficiently and quickly, covering debt and equity markets, insurance and banking industries, mutual and pension funds because the previous attempts through 4<sup>th</sup> and 7<sup>th</sup> directives to introduce consistent accounting and auditing standards had been unsuccessful because of the large number of national options, and also there was no immediate desire among the Member States to pursue further harmonization through a reduction of the options given (Tomaszewski, 2005). This can be accepted one of the biggest changes in financial reporting in Europe for about 25 years (PwC, 2002).

- Some other national standard setters and regulators have been trying to push the IFRSs in the practices around their countries such as Japan, Canada, China, India, New Zealand, and Brazil.
- Certain global professional accounting institutions have been taking significant roles to help national and international professional accounting bodies how to adopt or implement the IFRSs. ACCA Association for Chartered Certified Accountants that launched a diploma program in IFRS has been one of these global organizations (<http://www.accaglobal.com>).
- For the large and global accounting firms, this wave may have been both an opportunity and/or a threat. It has been an opportunity for those since they have been taking significant parts for the transitions, adaptations, and/or implementations. It has been a threat for those since they have been the leaders of the accounting and auditing world. They ought to be guidance to the regulators, the institutions, the corporations, and also the SMEs small and medium enterprises and the SMPs small and medium practitioners. As a result of that, they have been conducting surveys to follow up, training and educating the people related, publishing the manuals, books or booklets as guidance. PwC, E&Y, KPMG, Deloitte, BDO, and the others have worked constantly.
- There have existed large responsibilities to the national accounting and auditing bodies, national accounting and auditing firms to adopt or implement the IFRSs. While the rest of world has been going to do that, the countries cannot remain themselves since the world has been becoming smaller and smaller day-by-day.
- In a survey done by Mazars in April 2005 (Mazars, 2005), the level of preparation of Turkey for the IFRS conversion was reported average within Europe. The companies

involved felt themselves were almost ready to comply with the IFRS. The respondents thought very positively about the IFRS in Turkey. But, the compliance observed in this study was not verified as expected.

### **Background of the IFRS 2005 and Developments in Turkey**

The International Accounting Standards Board (IASB) that develops for the public interest, a single set of high quality, understandable, and enforceable global accounting standards requiring transparent and comparable information in general purpose financial statements was preceded by the Board of the International Accounting Standards Committee (IASC), which operated from 1973 until 2001.

In March 2001, the International Accounting Standards Committee (IASC) Foundation was formed as a not-for-profit corporation incorporated in the State of Delaware, US. The IASC Foundation became the parent entity of the IASB, an independent, privately funded accounting standard-setter based in London, UK. On 1 April 2001, the IASB assumed accounting standard-setting responsibilities from its predecessor body, the IASC. This was the culmination of a restructuring based on the recommendations of the report *Recommendations on Shaping IASC for the Future*. Also, intense pressure coming from the global financial markets in the 1990s had led this major restructuring.

The International Accounting Standards (IASs) and the International Financial Reporting Standards (IFRSs) had been most popular in the post Enron Era. The Enron has been a symbol of the corporate failures that taken place at the beginning of the 21<sup>st</sup> Century. Most of the cases had occurred under the US GAAP (United States General Accepted Principles). Since those cases occurred, the Financial Accounting Standard Board (FASB) competing to the IASB had started to lose its power in the global arena. Then, the Convergence Agreement (called the Norwalk Agreement) was signed by the FASB and the IASB on November 29, 2002 (IASB, 2002). It aimed to discharge the differences between those.

One of the first indications of the IFRSs in the world was the IOSCO's endorsement in 1999. IOSCO's endorsement of the Standards has been significant for several reasons. It has been a signaling an international movement away from a nationalistic regulatory approach to a cooperative multilateral approach (Deloitte, 2007). Standards symbolize international agreement that high quality, and arguably more transparent, disclosure is essential for

generating investor confidence and concomitantly reducing capital costs (Kung, 2002). This project or development started to reduce the number of the differences existing between IAS and US GAAP (Casabona & Shoaf, 2002).

There has been no doubt that the European Commission's decision was another trigger for the expansion of the IFRSs to the rest of the world. The European Commission eagerly considered the growing importance of capital markets for corporates financing and operating in the common currency environment. So, an action plan integrating financial services markets within the EU was developed. At the end, a new regulation was approved requiring EU-Listed public entities to report their financial statements in accordance with the IFRSs as of January 1, 2005 (Commission of the European Communities (EC), 1999).

On the other hand, the Basel Committee on Banking Supervision had a similar approach that the financial statements of financial institutions have to be prepared in accordance with the IFRSs as well.

In regarding the developments in Turkey, the roots of those have been going to the mid of 1970s. IASC was founded in June 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland and the United States, and consequently the Board of IASC at that time was established. The International Federation of Accountants (IFAC) was founded in 1977, and the international professional activities of the accountancy bodies were organized under IFAC. Turkey was one of the founding countries of the IFAC. In 1981, IASC and IFAC agreed that IASC would have full and complete autonomy in setting international accounting standards and in publishing discussion documents on international accounting issues. At the same time, including Turkey, all members of IFAC became members of IASC. This membership link was discontinued in May 2000 when the IASC's Constitution was changed as part of the restructuring of IASC.

- Under the supervision of the EAAT Expert Accountants of Turkey, one of the founders of IFAC, the International Accounting Standards developed and published by the IASC were translated immediately into the Turkish Language (Durmus, 1991).
- During the development of accounting standards in 1989 for the listed Turkish Companies, the Capital Market Board of Turkey considered those translated IAS.
- In 2001, IAS 29 and IAS 27-28 were compulsory for the listed companies.

- In 2002, following the Basel Committee, the Banking Regulation and Supervisory Agency of Turkey developed and published the Communiqués making financial institutions mandatory comply with the IFRSs.
- In 2003, a draft for IAS29 passed at the Turkish Parliament, and the law covered all entities operating in Turkey because there had been hyper-inflationary environment for the decades.
- Again in 2003, a draft for IAS17 passed at the Turkish Parliament, and enacted.
- In 2003, The Capital Market Board of Turkey announced that the listed companies prepare their financial reports in accordance with the accounting and reporting standards adapted from the IFRSs voluntary for 2004, and mandatory for 2005.

### **The Purpose and Motivation**

In the year of 2005 the adoption or implementation of IFRS became very effective in many countries including Turkey around the world. What has been the effect? How smoothly did the transition go? It is believed that many people around the world would be seeking the answers of these questions and similar ones. This study is not indeed aimed to respond these questions.

However, this study only focuses on the IFRS implementations in 2005 in Turkey.

Particularly it deals with the following research questions:

- What is the position statement of the goodwill and the deferred taxes on the financial statements investigated?
- What is the importance of the amounts of the goodwill and the deferred taxes on financial statements investigated?

It is argued that these two items of balance sheet had not been reported on the financial reports of the listed companies in Turkey until the impacts of the IFRS have been seen in the practice. In order to find out the answers of the research questions mentioned above, the top 100 listed companies in the Istanbul Stock Exchange have been taken a sample to investigate. Data available on the web pages were obtained from the financial reports of those. The empirical research was conducted through statistical software packages. The financial statements of those as of December 31, 2003, 2004, and 2005 have been investigated.

## Certain Indicators of the Turkish Economy and Its Capital Market

There has been no doubt that the Turkish Economy has been one of the emerging ones. So, has been the Capital Market of Turkey. Table 1 shows the number of the companies listed as of December 31 of the years given. Comparing to the numbers of the companies listed, one can argue that the Istanbul Stock Exchange Market has been a very smaller one for the last decades. It has also been interesting that the shares of the foreign or international investors represented 52,2% of the total investments as of December 31, 2003, 57% as of 2004, 66,3% as of 2005 subsequently. The international investors in the Istanbul Stock Exchange have realized more than 50% of the transactions and investments.

**Table 1**  
**The Numbers of the Companies Listed in the Istanbul Stock Exchange**  
**&**  
**Shares of the International Investors**

Year	National Market	Second National Market	New Economy Market	Watch List Companies Market	Total Number of Companies Listed	Shares of International Investors
2003	264	16	0	5	285	52,2%
2004	274	17	1	5	297	57%
2005	282	16	2	4	304	66,3%

Source: <http://www.imkb.gov.tr>

There had been hyper-inflationary environments since the early 1970s. For some years, the annual inflation rate had been more than 100%. This of course affected to the foreign currency exchange rates consequently. Recent figures about the exchange rates and inflation rates have been shown on Table 2.

**Table 2**  
**Some Indicators on the Turkish Economy**

Year	Inflation rate by consumers' prices Average	Inflation rate by whole sellers' prices Average	US 1 = NTL Average
2003	25,3%	13,9%	1,4931
2004	8,59%	14,9%	1,4223
2005	8,18%	5,88%	1,3408

Source: Central Bank of Turkey: <http://www.tcmb.gov.tr>

Note: As of January 1<sup>st</sup>, six zeros had been written off from the Turkish Currency.



## **Goodwill; A Significant Asset Item of the Financial Reporting**

Goodwill is an item of intangible assets reported on the balance sheet. Goodwill can provide to the information users a competitive advantage, such as a strong brand, reputation, or high employee morale. In an acquisition, goodwill appears on the balance sheet of the acquirer in the amount by which the purchase price exceeds the net worth of the acquired entity. This definition reflected in the 1980s. Goodwill definitions have evolved since then, and may be defined in different manners today.

Goodwill has still been defined as the difference between the purchase price and the fair market value of an acquired entity's assets or investments done over the other entities' capital that are called subsidiaries. Goodwill can be recognized during the acquisition transaction in accordance with the IFRS 3. On the other hand, goodwill can be reported on the consolidated balance sheets by the requirement of the IAS 27 and the IAS 28. Unless the equity method is used for the accounting for financial investments or subsidiaries, during the consolidation process of the balance sheets of the investor and the investee, goodwill can be recognized. In the other words, goodwill can be recognized during the preparation of consolidated financial statements when the purchase method of accounting is followed for investments in companies consolidated. And also, when the accounting for investments is followed by the equity method, goodwill can be recognized at the time of the initial investment (IASB, 2004).

On the other hand, goodwill can be the difference between the combined company's profits over normal earnings for a similar business. Under this approach, the present value of the projected future excess earnings is determined and recorded as goodwill (Sundararajan, 1995). This concept in nature may be very difficult to measure because future earnings of the entity may have uncertainties.

Goodwill can be generated internally. This type of goodwill has been recorded in the past. A broader concept of goodwill recognizes the economic value of a business' internally developed nonpurchased goodwill such as name, developed markets, managerial talent, labour force, government relations, ability to finance operations easily, etc. Such nonpurchased goodwill has not been recognized in the balance sheet, and the expenditures that may result in internally developed goodwill have not been capitalized. The primary reason for not accounting for goodwill developed in this manner is the absence of generally accepted

objective methods of measurement (Sundararajan, 1995). So, this has not been allowed currently by the global financial reporting standards or the national standards in Turkey.

### **Deferred Tax – Asset and/or Liability**

In order to verify deferred taxes, first of all the concept of current tax should be identified. It is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Deferred taxes are classified into two categories: deferred tax liabilities and deferred tax assets. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of either deductible temporary differences or the carry forward of unused tax losses or carry forward of unused tax credits (IASB, 2004).

Taking the concepts and definitions from the IFRSs, temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled (IASB, 2004).

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income) (IASB, 2004).

### **The Research Methodology**

This study has focused on the IFRS implementations in 2005 in Turkey. Particularly it seeks:

- What is the position statement of the goodwill and the deferred taxes on the financial statements investigated?
- What is the importance of the amounts of the goodwill and the deferred taxes on financial statements investigated?

In order to find out the answers of these questions, an empirical research has been realized. As of September 30, 2006, there were 303 companies whose stocks had been quoted in the

national market of the Istanbul Stock Exchange. The top 100 companies of those had been chosen as sample. Financial reports of those for 2003, 2004, and 2005 had been obtained from the official web pages of the Istanbul Stock Exchange. After having consistency investigation, 18 companies of the top 100 ones were omitted because of the missing data. The data for 82 companies of the top 100 ones were summarized in the Appendix C.

With the data gathered, (1) an analytical examination has been made, (2) demographics of the 82 companies were calculated, (3) correlation coefficients and their significances were calculated and summarized by a statistical software package. And some other minor observations needed have been made in order to find out the answers for the questions set by the objectives of the study.

### **Determining the Sample Size**

As mentioned above, when the top 100 companies were chosen, the population had covered 303 companies at the national market of the Istanbul Stock Exchange. By 95% of confidence level and 9 of confidence interval, the sample size needed was 85 companies. By 99 of confidence level and 12 of confidence interval, the sample size needed was 84 companies (<http://www.surveysystem.com/sscalc.htm>). From these calculations, the data of 82 companies for this study were decided reasonably acceptable.

### **Some Findings by the Analytical Investigation Applied and Assumptions**

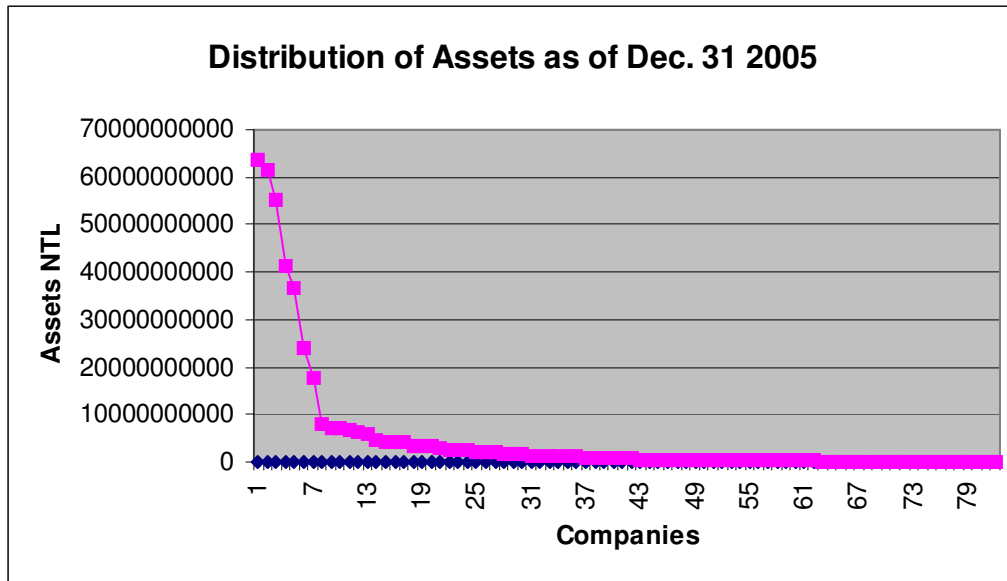
Making an overview on the data investigated, findings below may be important:

- Because of the Law about the inflationary adjustments that passed in the Turkish Parliament at the end of 2003, all financial reports for the year of 2003 were presented by the general price level index officially declared as of December 31, 2003. During 2004 and its end, all-financial reports were readjusted by the price level index officially declared as of December 31, 2004. After that no adjustments were conducted because the conditions for inflationary adjustments by the IAS 29 disappeared.
- The Figure 1 shows that the financial market in Turkey has not been very strong. One can argue that it has been very young because it was established in the mid of 1980s. As of December 31, 2005, about less than 10 companies did have more than 10 billion NTL of assets, and about 30 companies did have between 1 billion NTL and 10 billion NTL of assets. It has been to indicate that the Turkish Financial Market has

been very weak that the rest of the companies investigated did have less than 1 billion NTL of assets.

- As seen at Appendix A, the Turkish companies listed have been financed not by owners' equities. Therefore the rate of financial leverage generally has not been favor. Financing rate by owners' equity has been between 20-25% average.

**Figure 1**



- IFRS 2005 in Turkey was not an implementation of whole IASs or IFRSs since some major requirements of those were not complied with yet. Even not allowed by the IFRS 3 or the IAS 36, negative goodwill amounts were reported as parts of assets on balance sheets (IASB, 2004). As seen in Appendix C, certain companies reported negative goodwill amounts among the assets on the balance sheets. It was the same for the financial reports for 2003 and 2004. This was a unique case to indicate that the IFRS application in Turkey can be counted an adoption, not entirely implementation. From that point of view, all pronouncements published by the Capital Market Board of Turkey were reexamined. It has been found out that an adoption from the IASs and the IFRSs were done during the year of 2003, and the pronouncements were published as a single set of standards on November 15<sup>th</sup>, 2003. Since then, no amendments have been don on the set. The IASB has indeed making very significant developments on the IASs and the IFRSs (for further information kindly visit to <http://www.iasb.org.uk>), even being a candidate country at the negotiating level

towards full membership to the EU, and also even being a member of the IOSCO, those developments or amendments have not being followed in Turkey.

- In this study, it has been assumed that goodwill accounts and deferred tax – assets/liabilities started to be reported through the IFRS application in Turkey. Before that, they were scarcely seen on the financial statements. And also tax income has been introduced by the IFRS application to the financial information users in Turkey.

### **Findings About Goodwill Reported in Turkey**

Findings about goodwill account reported among the assets on the balance sheets are very interesting. As Appendix A shows, 25 of 82 companies reported goodwill as of Dec.31, 2003 and 2004, 37 of 82 as of Dec.31, 2005. This share has been very significant to the Turkish Capital Market. However, as mentioned before, there have been negative goodwill accounts reported even not allowed by the IFRSs. As Appendix B shows, the amount of goodwill reported has taken up to 53,78% of the assets reported as of Dec.31 2003 and 2004. Negative goodwill reported for the end of 2003 takes about 25% of the assets reported. The mean calculated for the goodwill in assets also reflects the weakness of the Turkish Capital market at whole because the mean of those has been about 5-6% of the assets.

Comparing the goodwill to the owners' equity reported, it reflects more than 10% of those. It is also interesting indicator for the Turkish Companies Listed.

Having the results (Table 3) of the correlation analyses between goodwill accounts reported and assets, the indicators show that the relationship between those might be acceptable as significant. But, it is not with the owners' equities reported.

**Table 3**  
**Correlation Coefficients and Their Significances for the Sample Selected**

	2003		2004		2005	
	Total Assets	Total Equity	Total Assets	Total Equity	Total Assets	Total Equity
<b>Goodwill</b>	$r= 0,346$	$r= 0,570$	$r= 0,125$	$r= 0,381$	$r= 0,567$	$r= 0,690$
	$p=0,147$	$p=0,011$	$sig=0,622$	$p=0,119$	$p=0,001$	$p=0,000$
<b>Differed Tax Asset</b>	$r=0,748$	$r= 0,639$	$r= 0,714$	$r= 0,693$	$r= 0,472$	$r= 0,498$
	$p=0,000$	$p=0,004$	$p=0,001$	$p=0,001$	$p=0,000$	$p=0,000$
<b>Differed Tax Liability</b>	$r= 0,387$	$r=0,503$	$r= 0,708$	$r= 0,803$	$r= 0,503$	$r= 0,610$
	$p=0,113$	$p=0,034$	$p=0,000$	$p=0,000$	$p=0,000$	$p=0,000$

	2003		2004		2005	
	Net Income	Tax Payable	Net Income	Tax Payable	Net Income	Tax Payable
<b>Tax Expense</b>	$r= 0,926$	$r= 0,694$	$r= 0,791$	$r= 0,704$	$r= 0,877$	$r= 0,853$
	$p=0,000$	$p=0,000$	$p=0,000$	$p=0,000$	$p=0,000$	$p=0,000$
<b>Tax Income</b>	$r= 1,000$	$r= 1,000$	$r= 1,000$	$r= 1,000$	$r= 0,000$	
	$p=$	$p=$	$p=$	$p=$	$p=1$	N/A

### **Deferred Taxes on the Financial Positions in Turkey**

There has been no deferred tax liabilities or deferred tax assets before the IFRS applications in of Turkey. But, nowadays they have been very popular. As Appendix A and B show, both deferred tax liabilities and deferred tax assets have been reported on the financial statements of the sample companies.

As seen at Appendix A, the number of the companies that reported deferred tax assets or deferred tax liabilities has been growing year by year. It has meant that the companies selected started to comply with the IAS 12 requirements because, as existed in every country, there have been a lot of temporary differences between the financial reporting requirements and the tax legislation in Turkey. For this study, the amount of deferred tax assets or deferred tax liabilities is not important at first step, but the existence of those on the financial reports is very important due to the existence of the temporary differences in Turkey. It is believed that the existence of the deferred tax assets or the deferred tax liability on the financial reports will be very good evidence for the IFRSs application in Turkey.

Tax income has been one of the concrete evidences of the IFRSs application in Turkey because it is very new concept that information users hardly understand. In 2003 and 2004, 7

of 82 companies reported tax income, 12 of 82 in 2005. By the correlation analyses done, relationships between tax income and net income reported might be acceptable as significant. One can argue that reporting tax income on income statements would be one of the milestones in the financial reporting framework in Turkey.

### **Summary and Conclusion**

Through this study, it has been summarized that The Turkish Companies listed that have to fully comply with the IASs and the IFRSs might have varied considerably in their level of compliance. As a simple indicator, reporting negative goodwill on the balance sheets might have been concrete evidence to say that. It is thought that the responsibility goes to not only the executives of the reporting companies but also the auditors because the financial reports examined in this study were audited by the independent audit firms. Most of these audit firms are top 10 in the world.

However, the indicators of application of the IASs and the IFRSs in Turkey have been obvious since certain evidences for that process can be seen on the financial reports examined. Those evidences can be goodwill, deferred tax assets, deferred tax liabilities, tax income, etc. On the other hand, while global capital has been moving across borders in the world, it has been pushing the global standards in the practices since it should save itself from uncertainties. As a country and being one of the emerging markets in the world, Turkey cannot be out of this significant wave.

The IFRS has been a single set of global accounting standards that aims to deliver transparent and comparable information in financial report and other financial reporting to information users for decision-making. Because of this, the EU and other countries had decided that the companies listed in their territories are to prepare their financial reports in accordance with the IFRS as of January 1<sup>st</sup> of 2005. That is why IFRS 2005 might have ever been accepted one of the major milestones for financial reporting arena. One of the significant objectives of the legislation in the countries for IFRS might have been the reduction in the cost of capital. The price of investors in uncertainty can occur from unclear financial reporting, unclear business structures, nontransparent sovereign risk etc. Some investors may not invest in certain countries, while emerging markets consistently may show a higher investor premium. But this study shows that Turkey has been getting out of this situation.

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**Appendix A**  
**Demographics of the Sample Companies Investigated**  
**(NTL, New Turkish Liras)**

	2003	2004	2005
<b>Assets</b>			
Mean	3.127.543.742	3.876.394.786	5.036.790.807
Median	579.446.419	724.464.868	787.550.687
Min	24.258.113	31.407.820	35.533.660
Max	35.566.694.000	44.229.756.000	63.712.468.000
N	82	82	82
<b>Equity</b>			
Mean	711.553.605	916.916.236	1.011.967.059
Median	176.921.125	238.019.746	254.213.500
Min	-157.943.587	-173.882.568	-191.165.802
Max	5.659.187.000	7.714.215.000	9.677.343.000
N	82	82	82
<b>Goodwill</b>			
Mean	79.029.091	72.717.974	233.154.988
Median	9.407.680	12.254.000	20.764.870
Min	-1.025.257.407	-1.224.921.799	-6.071.000
Max	2.082.690.058	2.230.454.638	2.808.941.225
N	25	25	37
<b>Deferred Tax-Assets</b>			
Mean	78.511.108	76.442.951	47.490.449
Median	20.662.500	37.737.216	4.810.397
Min	15.214	1.262.359	13.766
Max	421.707.259	341.566.000	714.658.000
N	18	19	56
<b>Deferred Tax-Liabilities</b>			
Mean	50.760.228	53.679.318	44.732.264
Median	27.044.500	33.806.288	11.592.762
Min	1.896.635	24.000	2.034
Max	261.644.000	251.803.000	273.858.000
N	18	23	51
<b>Net Income/Loss</b>			
Mean	103.494.889	118.097.426	94.451.478
Median	23.563.687	24.669.961	16.892.974
Min	-215.566.579	-79.786.000	-2.996.274.000
Max	1.338.897.000	1.007.403.000	1.461.170.000
N	82	82	82
<b>Tax Expense</b>			
Mean	49.977.317	69.320.958	104.916.315
Median	8.265.810	12.301.195	16.189.000
Min	9.664	304	500
Max	720.413.000	513.451.000	2.221.121.258
N	61	62	67

**Appendix A (Cont.)**  
**Demographics of the Sample Companies Investigated**  
**(NTL, New Turkish Liras)**

Tax Income			
Mean	92.477.894	92.477.894	5.469.568
Median	15.934.000	15.934.000	3.376.931
Min	87.189	87.189	206.463
Max	573.609.862	573.609.862	21.071.037
N	7	7	12
Taxes Payable			
Mean	19.723.566	24.596.245	44.037.957
Median	2.593.287	2.798.793	24.823.000
Min	21.546	17.919	1.708.000
Max	451.443.283	640.215.609	196.771.704
N	78	69	12

## Appendix B

### More Demographics of the Sample Companies Investigated

	2003	2004	2005
Goodwill in Total of Assets (%)			
Mean	5,61%	4,76%	6,78%
Median	0,38%	0,19%	1,21%
Min	-23,63%	-19,69%	-0,09%
Max	53,78%	51,15%	47,38%
N	25	25	37
Goodwill out of Total of Owners' Equity (%)			
Mean	13,59%	11,04%	14,76%
Median	2,51%	1,05%	3,12%
Min	-33,98%	-28,09%	-29,94%
Max	134,51%	152,02%	107,56%
N	25	25	37
Deferred Tax-Assets in Total Assets (%)			
Mean	3,97%	3,49%	2,48%
Median	1,40%	1,49%	1,18%
Min	0,00%	0,15%	0,00%
Max	20,70%	17,94%	19,72%
N	18	19	56
Deferred Tax-Assets out of Total of Owners' Equity (%)			
Mean	20,59%	15,38%	-15,31%
Median	6,54%	4,45%	2,09%
Min	0,00%	0,22%	-967,51%
Max	229,18%	163,11%	37,52%
N	18	19	56
Deferred Tax-Liabilities in Total Assets (%)			
Mean	3,79%	2,58%	2,17%
Median	1,88%	1,58%	1,70%
Min	0,03%	0,00%	0,00%
Max	12,53%	9,09%	7,91%
N	18	23	51
Deferred Tax-Liabilities out of Total of Owners' Equity (%)			
Mean	6,57%	4,84%	4,91%
Median	4,58%	4,07%	3,09%
Min	0,16%	0,03%	0,00%
Max	21,40%	16,38%	22,09%
N	18	23	51
Tax Expense in Net Income (%)			
Mean	29,61%	38,25%	93,50%
Median	25,80%	38,93%	32,14%
Min	-100,54%	-102,85%	-34,99%
Max	109,19%	146,10%	3644,49%
N	61	62	67

## Appendix B (Cont.)

### More Demographics of the Sample Companies Investigated

#### Tax Income in Net Income (%)

Mean	-58,04%	28,36%	-1579,97%
Median	0,46%	28,79%	-10,62%
Min	-438,25%	-11,83%	-17539,43%
Max	51,17%	67,68%	92,81%
N	7	4	12

#### Taxes Payable in Tax Expense (%)

Mean	347,06%	591,59%	47,22%
Median	44,79%	28,37%	25,32%
Min	0,62%	0,16%	6,70%
Max	11130,34%	27836,88%	244,30%
N	60	54	12

#### Taxes Payable in Tax Income (%)

Mean	371,15%	206,82%	N/A
Median	18,78%	206,82%	N/A
Min	16,73%	8,93%	N/A
Max	1430,29%	404,70%	N/A
N	4	2	N/A

**Appendix C**  
**Top 82 Companies in the Istanbul Stock Exchange**  
**As of December 31, 2005 (US\$ 1 = 1,3418 YTL)**

<b>Company Name</b>	<b>Assets</b>	<b>Goodwill</b>	<b>Fixed Assets</b>	<b>Shareholders' Equity</b>	<b>Net Sales</b>	<b>Tax Expenses</b>	<b>Net Income</b>	<b>Deferred Tax- Assets</b>	<b>Deferred Tax - Liabilities</b>
İŞ BANKASI	63.712.468.000	0	N/A	9.677.343.000	N/A	693.453.000	955.628.000	0	10.053.000
SABANCI HOLDİNG	61.735.979.000	290.968.000	21.124.058.000	6.799.159.000	8.736.069.000	721.662.000	689.765.000	355.607.000	271.401.000
AKBANK	55.198.829.000	0	N/A	6.389.556.000	N/A	653.848.000	1.461.170.000	1.851.000	43.474.000
GARANTİ BANKASI	41.347.840.000	56.260.000	N/A	3.908.770.000	N/A	257.243.000	769.959.000	44.425.000	612.000
KOÇ HOLDİNG	36.681.953.000	1.067.605.000	16.759.211.000	4.836.959.000	24.353.374.000	298.458.000	597.624.000	714.658.000	273.858.000
YAPI VE KREDİ BANK	23.866.400.000	30.122.000	N/A	1.677.301.000	N/A	171.426.000	<b>-2.996.274.000</b>	368.287.000	0
FİNANSBANK	17.919.302.000	0	N/A	1.585.898.000	N/A	177.394.000	470.161.000	1.321.000	26.819.000
DOĞAN HOLDİNG	8.006.916.557	2.808.941.225	4.835.737.955	2.611.613.322	9.804.327.395	111.396.685	636.356.508	131.397.349	121.923.791
EREĞLİ DEMİR CELİK	7.190.977.304	0	4.580.483.870	4.801.429.892	4.166.907.446	77.500.177	193.392.407	100.899.078	629.367
T.EKONOMİ BANK.	6.962.744.000	1.686.000	0	507.764.000	N/A	46.576.000	102.239.000	7.977.000	14.000
TURKCELL	6.870.710.000	-6.071.000	5.053.837.000	4.771.658.000	6.002.073.000	333.176.000	1.070.839.000	4.475.000	83.531.000
ENKA İNŞAAT	6.273.443.158	74.001.894	4.147.960.287	2.302.533.261	4.024.835.353	82.792.270	409.498.160	193.656.588	225.287.524
TÜPRAŞ	5.736.825.054	0	2.645.714.589	3.252.513.682	14.844.803.951	221.900.083	658.440.381	0	100.537.205
PETROL OFİSİ	4.707.887.382	2.230.454.638	3.075.135.996	2.179.353.106	11.836.261.132	90.561.862	216.032.574	0	80.207.854
VESTEL	4.334.375.000	79.812.000	1.110.828.000	1.055.329.000	4.407.738.000	16.806.000	86.400.000	60.871.000	118.563.000
ŞİŞE CAM	4.185.820.535	20.764.870	N/A	2.839.693.415	2.131.082.553	2.221.121.258	60.944.715	0	196.771.704
ARÇELİK	4.122.586.000	39.268.000	1.461.733.000	1.987.056.000	5.102.907.000	94.949.000	312.153.000	210.000	12.033.000
TÜRK HAVA YOL.	3.514.792.667	0	2.688.869.983	1.248.341.593	2.953.354.162	43.566.905	138.227.837	0	90.051.647
ŞEKERBANK	3.324.057.000	1.618.000	N/A	326.182.000	N/A	14.596.000	77.879.000	7.688.000	0
T.S.K.B.	3.324.015.000	0	N/A	554.136.000	N/A	25.490.000	100.025.000	1.910.000	0
ANADOLU EFES	2.761.034.390	589.316.427	1.824.546.922	1.384.933.874	1.619.419.872	84.880.239	290.590.163	1.400.839	39.066.598
FORD OTOSAN	2.635.550.015	0	1.491.594.952	1.604.508.394	6.059.155.275	128.050.757	398.410.813	32.579.434	0
MİGROS	2.360.878.000	173.218.000	1.620.595.000	706.930.000	2.686.100.000	24.574.000	73.705.000	61.609.000	0
GSD HOLDİNG	2.360.208.000	0	231.587.000	234.640.000	1.115.140.000	7.677.000	20.057.000	13.766	0
DOĞAN YAYIN HOL.	2.226.507.000	576.182.000	1.452.981.000	639.515.000	1.712.041.000	51.046.000	8.741.000	59.741	39.989
TEKSTİLBANK	2.028.871.000	0	N/A	165.357.000	N/A	5.900.000	9.686.000	10.900.000	0
TOFAŞ OTO. FAB.	1.932.995.000	0	812.740.000	1.038.277.000	2.543.292.000	22.059.000	141.845.000	144.194.000	0
PETKİM	1.801.846.135	0	1.274.831.262	1.400.069.741	1.344.249.050	16.797.877	<b>-98.546.779</b>	0	35.151.517

AYGAZ	1.591.512.413	145.583.977	980.080.489	926.242.719	4.180.372.388	23.627.688	90.297.716	0	74.239.598
ALTERNATİFBANK	1.486.422.000	0	N/A	138.530.000	N/A	16.189.000	22.071.000	21.169.000	18.000
AKSA	1.454.924.091	0	808.346.052	617.868.664	1.143.383.970	<b>11.010.498</b>	<b>-826.562</b>	0	69.356.780
BEKO ELEKTRONİK	1.433.027.000	0	338.138.000	273.787.000	2.195.174.000	<b>14.389.000</b>	<b>-82.038</b>	11.340.000	810.000
ECZACIBAŞI İLAÇ	1.300.936.093	3.733.489	888.926.765	930.463.248	847.858.100	4.657.487	36.761.293	33.404.569	5.291.185
TRAKYA CAM	1.300.617.922	0	991.611.447	866.522.218	585.390.591	31.381.006	82.924.927	0	98.608.909
ASELSAN	1.274.615.342	-333.827	433.870.486	371.776.726	398.311.035	33.965.047	90.722.439	12.177.524	17.628.454
ÜLKER GIDA	1.219.182.050	115.084.884	485.434.358	554.487.489	1.294.733.151	32.753.205	66.226.253	0	46.964.965
ALARKO HOLDİNG	1.035.758.964	-881.339	266.608.321	501.040.927	569.751.637	7.628.399	60.238.872	5.314.546	0
HÜRRİYET GZT.	935.597.348	11.332.183	507.279.805	657.252.467	585.174.934	34.915.345	87.580.389	2.897.128	35.061.371
İHLAS HOLDİNG	921.850.287	135.215.154	560.060.268	465.564.738	627.672.902	17.398.323	12.807.821	50.810.584	25.521.207
AKÇANSA	856.253.477	0	587.096.639	738.476.239	415.049.192	27.558.487	113.565.095	4.496.774	39.257.482
İŞ GMYO	841.711.374	0	771.060.421	795.517.708	39.535.502	10.399	34.094.657	0	2.034
İŞ FİN.KİR.	733.390.000	166.000	319.508.000	129.779.000	38.457.000	113.000	40.022.000	23.000	0
AK ENERJİ	627.894.032	0	399.269.278	488.259.491	402.609.212	<b>4.306.993</b>	<b>-79.091.304</b>	0	39.099.704
ZORLU ENERJİ	585.301.414	0	484.849.993	311.408.675	215.378.173	<b>4.128.596</b>	4.448.346	1.215.409	0
AYEN ENERJİ	573.195.705	13.607.090	516.119.156	207.606.107	81.643.525	<b>1.367.322</b>	4.897.216	43.206.205	0
KARDEMİR (D)	533.674.085	0	394.547.442	329.163.831	491.014.440	480.592	6.532.187	0	0
TANSAŞ	526.229.910	25.796.696	276.218.729	211.643.637	1.270.859.751	2.274.270	14.216.608	79.402.126	0
T.DEMİR DÖKÜM	468.286.645	4.369.869	115.868.043	175.947.357	572.022.617	12.983.371	28.606.583	2.452.318	488.355
IŞIKLAR AMBALAJ	398.463.144	994.566	64.546.437	<b>-3.322.369</b>	49.258.604	247.703	<b>-4.684.000</b>	32.144.267	0
UZEL MAKİNA	386.170.863	0	159.941.274	183.046.815	495.534.755	3.192.358	15.876.934	0	7.386.327
PINAR SÜT	358.220.714	0	244.107.531	219.211.199	321.133.887	9.947.339	22.189.767	0	28.342.133
GİMA	298.223.796	0	142.264.205	<b>-34.179.964</b>	713.889.884	<b>21.071.037</b>	<b>-57.315.402</b>	58.808.253	0
İZMİR DEMİR ÇELİK	294.381.075	26.063.951	170.071.090	191.252.360	442.252.693	403.251	12.739.609	6.496.057	0
NET HOLDİNG	294.307.054	0	206.220.747	45.576.654	36.297.899	4.121.036	<b>-11.776.930</b>	0	10.067.779
TURCAS PETROL	286.519.227	80.809.878	153.505.818	219.491.933	1.853.821.465	20.344.432	46.517.870	3.405.393	0
GOLDAS KUYUM.	273.843.006	57.674	64.731.262	137.789.695	2.304.812.312	597.665	5.241.088	0	0
DEVA HOLDİNG	273.183.396	0	97.791.262	114.502.059	230.278.587	7.426.150	14.463.629	667.905	1.883.652
MENDERES TEKSTİL	268.381.145	0	104.883.895	206.609.726	232.178.704	<b>206.463</b>	5.192.629	1.601.177	5.638.040
DÖKTAŞ	260.423.686	0	135.930.681	163.125.960	348.695.730	500	6.301.252	0	385.998
NET TURİZM	246.017.016	0	175.244.122	55.548.883	15.513.321	4.348.064	4.460.741	10.140.739	11.592.762
ÇELEBİ	227.881.865	0	162.556.463	101.830.978	215.014.711	<b>2.625.266</b>	31.156.786	5.466.421	9.979.254
NETAŞ TELEKOM.	211.140.896	0	54.780.582	154.430.369	141.861.603	5.234.293	16.607.531	0	9.135.203
OTOKAR	208.335.556	0	58.550.494	103.593.151	284.012.522	2.934.086	9.355.484	0	361.856

EGE SERAMİK	197.405.897	0	90.320.860	69.390.201	130.234.030	460.131	723.692	0	0
KARTONSAN	197.027.728	4.871.796	79.927.886	174.981.425	112.453.174	6.149.913	15.298.894	0	3.352.750
BANVİT	189.365.475	3.927.719	84.101.129	83.638.116	327.358.930	<b>1.314.378</b>	<b>-4.537.442</b>	1.208.467	0
GARANTİ GMYO	139.765.656	0	83.882.948	88.953.980	941.503	0	5.185.134	0	0
YATAŞ	134.498.620	0	41.441.740	47.013.799	113.596.563	17.674	2.550.370	235.206	6.439.315
MARMARİS MARTI	124.886.130	15.660.793	115.792.950	89.031.508	35.408.975	728.945	1.498.625	3.482.598	0
KOZA DAVETİYE	122.376.247	1.263.451	73.618.263	40.461.406	82.878.702	5.900.754	13.069.516	382.165	1.070.013
ATAKULE GMYO	120.631.436	0	11.563.293	119.366.653	9.468.886	0	17.178.417	0	0
PARK ELEK.MADEN.	113.830.086	450.746	70.098.844	99.985.312	27.729.925	2.184.485	9.451.812	1.332.321	0
USAŞ	106.466.520	0	18.949.259	82.841.796	159.345.471	11.715.579	27.480.663	3.124.002	0
DARDANEL	69.369.577	4.812.769	40.419.783	<b>-191.165.802</b>	99.505.223	<b>4.160.886</b>	<b>-26.350.508</b>	5.074.607	0
MİLPA	69.037.401	0	48.590.124	21.505.796	6.567.843	351.986	<b>-1.861.400</b>	2.540.999	0
İHLAS EV ALETLERİ	60.243.487	0	10.712.339	32.771.394	73.000.314	1.522.597	2.721.280	684.319	236.383
TEK-ART TURİZM	46.584.031	0	39.420.220	38.056.700	10.713.716	296.459	690.530	0	1.175.413
CEYTAŞ MADENCİLİK	45.750.864	0	26.529.541	39.300.072	20.879.031	326.345	<b>-2.380.745</b>	1.493.656	0
BOSCH FREN SİSTEM.	44.989.901	0	22.636.527	22.222.882	89.991.850	<b>744.924</b>	<b>-347.783</b>	1.645.033	0
KRİSTAL KOLA	44.195.587	0	20.173.148	38.948.769	28.130.249	<b>309.454</b>	387.281	4.546.187	32.173
İHLAS GMYO	43.205.080	0	10.148.348	31.385.014	7.892.045	0	-4.509.641	0	0
METEMTEKS	35.533.660	0	25.090.489	15.943.827	16.326.252	104.600	1.483.224	1.086.407	1.893.168