

## **International Financial Reporting Standards for Smes and The Application Process In Turkey**

**Mehmet CİVAN**

Assist. Prof., The University of Gaziantep  
Faculty of Economics and Administrative Sciences  
Business Administration  
[civan@gantep.edu.tr](mailto:civan@gantep.edu.tr)

**Mehmet KÖRPI**

Lecturer , The University of Gaziantep  
Naci Topcuoglu Vocational School of Higher Education  
[korpi@gantep.edu.tr](mailto:korpi@gantep.edu.tr)

**Burcu BUYURAN**

Vocational School Part Time Lecturer  
The University of Gaziantep  
Naci Topcuoglu Vocational School of Higher Education  
[bbuyuran@hotmail.com](mailto:bbuyuran@hotmail.com)

**Abstract:** Today, 95% of the world and in our country's economic system occurs from the Small and Medium-Large Enterprises (SMEs) constitute. Only the European Union, more than 25,000,000 and in our country 1.000.000 companies is estimated in the SME status. As shown the SMEs get a large share of sector ,the existence of their special structure, has become inevitable. One of these special structure, is financial reporting. Increasingly widespread use of International Financial Reporting Standards,the issue of how to implement those standards to SMEs, has been brought up. And for this problem in 2009 "SMEs for IFRS"was published. by IFRS.

In this context, the basic aim of our study is to investigate and see the implementation proses of "IFRS for SMEs" which resolve the differences of national accounting systems that applied in various countries of the world and will enable to comparison of financial reports and to see how affects and what would bring to Turkey's economic system.

**Keywords:** Small and Medium-Large Enterprises (SME), International Financial Reporting Standards (IFRS), Accounting, Financial Reports

### **1. Introduction**

After the product of the five-year study, International Accounting Standards Board ("IASB") was released on 9 July 2009 "International Financial Reporting Standards" in line with the SME accounting standards ("IFRS for SME's") for Small and Medium-Sized Enterprises ("SME") that estimated approximately 95% of all businesses on the world. In the development of Accounting standards on SMEs; SME Commission be formed from forty person, working like counselling to establish the contents of standards and in order to measure of the SME-oriented approach to the final draft ,the draft was published in five different languages. More than fifty meetings arranged to final draft, pilot applications done more than a hundred enterprises in more than twenty different countries and after be finalized set of draft standarts , the standarts be published

The differences between applying national accounting systems in various countries of the world, makes hard to comparability of financial statements and makes difficult for investors the identification of

investment opportunities in different regions of the world , also slowing foreign capital inflows to emerging economies and investors in the decision making process increases the investment risk.

Accounting standards for SMEs is expected to provide, consistently applied globally to a common financial language requirements, that become almost indispensable for the mobility of capital more easily and quickly in with each passing day more integrated capital markets

Accounting standards for SMEs, was prepared more simpler, more easily performed and designed with an understandable language than IFRS and according to the needs of enterprises in various parts of the world .

SME accounting standards published an independent set of accounting standards from IFRS and countries which IFRS doesn't applied will be able to use based their initiatives. Which businesses will be covered by these standards are left to the discretion of the relevant countries.

In order to put an end to implement the multi-headed, in Turkey's accounting and financial reporting system ; Turkey Accounting Standards Board (TASB) that have administrative and financial autonomy and public entities has been established. for to create and publish accounting standards

TASB have adopted IFRS in order to ensure compliance with European Union legislation and to close the world applications. with this decision TASB) was signed between the copyright and license agreement, by the International Accounting Standards Foundation (IASCF) and has been decided to make an official translation by TASB. As a result of this study Turkey Accounting Standards (TMS) was published in the Official Gazette. Corrections and additions will be made to IFRS are expected to apply by TASB for to continue to ensure full compliance of IFRS and TFRS with the order.

## **2. SMEs (Small and Medium-sized enterprises) Definition and Criteria**

Financial Reporting Standards published for SMEs is defined SMEs as “SMEs are Businesses without Public accountability obligations and publish general purpose financial statements for external users”.

External users stated in definition are;

- Business owners that are not in business management
- Lenders or potential lenders of business
- Information users such as Credit rating agencies

Standard, was sort obligation to account to the public situations like the following:

a. Company's debt and equity instruments (stocks), domestic or foreign capital market or over the counter market, including local and regional markets the public in an open market transactions, or that such a market process to see these instruments exported in the process of be be.

b. Assets, with the title custodian be maintained on behalf of a large mass counterparts. (Banks, Investment Banks, mutual funds, insurance companies, pension companies, pension funds, brokerage companies, factoring companies, leasing companies and other financial institutions, etc.)

Small and medium-sized enterprises (SME), defined in terms of some criteria are companies that do not exceed a certain size. SME criteria vary between countries. The European Union and Turkey, the Ministry of Industry and Commerce has identified the SME criteria are as follows:

<b>Criteria</b>	<b>Micro-Scale</b>	<b>Small-Scale</b>	<b>Medium- Scale</b>
Number of Employees	<10	<50	<250
Amount of sales; (Euro)	<2.000.000	<10.000.000	<50.000.000
Total assets (Euro)	<2.000.000	<10.000.000	<43.000.000

**Table 1:** Valid from 2005, according to EU criteria for SMEs

<b>Criteria</b>	<b>Micro-Scale</b>	<b>Small-Scale</b>	<b>Medium- Scale</b>
Number of Employees	<10	<50	<250
Amount of sales; (Euro)	<1.000.000	<5.000.000	<25.000.000
Total assets (Euro)	<1.000.000	<5.000.000	<25.000.000

**Table 2:** Criteria for SMEs according to the Ministry of Industry and Trade

### 3. International Financial Reporting Standards For SMEs

Financial reporting standard for SMEs, are intended to be used for small and medium-sized enterprises (SMEs) is simplified than the full set of accounting standards

Standard consists of a total thirty-five chapters. This sections is also included the section of the definition of SMEs and two sections describe concepts and general principles. In this state of standards it is not true to perceive standards as a miniature set of IFRS. Because to be enhanced that with the standards there are found special solutions apart from IFRS.

It is considered by everyone that Special standards for SMEs will be developed to meet the needs of the individual nature of SMEs. In other words, developed a "special standard" must be applied without no dependents set of IFRS. The major criticism of the earlier draft version of the standard is implementation alone regardless of the standard set of IFRS can not be possible. Accordingly, the standard version of the first set of IFRS for application to be able to fully implement, while the new version with a very large extent, this situation has been eliminated.

Another major criticism towards IFRS is changing of the standards too often. The changing of Standards very often, makes the implementation of standards for practitioners difficult. While the publication of these standards, updates will be made as possible intermittent (unless absolutely necessary to make updates every three years) have been described in the standard will make it more stable. With the standard of such a policy be presented, especially for SMEs, should be regarded as a positive situation.

### 4. The Contents of Financial Reporting Standards for SMEs

Accounting standards for SME to be prepared by IASB, consisted of three parts.

- In Section One, Chapter 35 (standard) and a dictionary
- In the Second Section; Implementation Guide (sample financial statements and footnote information to be announced)
- In the Third Section, the descriptions of the standards check list is explained.



**Figure 1.** "IFRS for SMEs" according to the latest draft of partitioning

In the full set, Standards are released with a separate standards codes, In SME financial reporting standards as published in the Code section. Each chapter covers one or several standard according to the situation. SME standard consists of 35 sections.

Section No	Section Name	Section No	Section Name
1	Small and Medium Sized Entities	18	Intangible Assets Other Than Goodwill
2	Concepts And Pervasive Principles	19	Business Combinations And Goodwill
3	Financial Statement Presentation	20	Leases
4	Statement Of Financial Position	21	Provisions And Contingencies
5	Statement Of Comprehensive Income And Income Statement	22	Liabilities And Equity
6	Statement Of Changes In Equity And Statement Of Income And Retained Earnings	23	Revenue
7	Statement Of Cash Flows	24	Government Grants
8	Notes To The Financial Statements	25	Borrowing Costs
9	Consolidated And Separate Financial Statements	26	Share-Based Payment
10	Accounting Policies, Estimates And Errors	27	Impairment Of Assets
11	Basic Financial Instruments	28	Employee Benefits
12	Other Financial Instruments Issues	29	Income Tax
13	Inventories	30	Foreign Currency Translation
14	Investments In Associates	31	Hyperinflation
15	Investments In Joint Ventures	32	Events After The End Of The Reporting Period
16	Investment Property	33	Related Party Disclosures
17	Property, Plant And Equipment	34	Specialised Activities
		35	Transition To The IFRS For Smes

**Table 3:** Department of IFRS for SMEs

## 5. " IFRS For SMEs " of the United States, European Union and in Turkey Forecast

Developed standards, largely to meet the needs of SMEs are expected.Because of no negative opinion to draft text makes strengthening the argument. Primarily for the implementation of standards by SMEs of the country's internal legal system of standards is required to be transferred.

### USA Status

In the United States there is no Standard or standard set developed for SMEs, Besides this Only the Companies following to SEC(U.S. Securities and Exchange Board ) disclosure requirement of their financial statements (In EU ,all capital companies have to publish financial statements )shows the transposition of standards to domestic law is as not easy as estimated .

From the perspective of the IASB in the U.S. in dealing with the process currently is uncertain how it will operate.In the process of convergence with USA (Process of USA counterpart is FASB) carried out no plan to develop accounting standards for SMEs for now

### 5.2.The European Union Status

In full integration prosess to EU hhe most important public Works of financial integration practises is due to accounting practises become compatible with EU countries and international scales.For this purpose important Works is done within the EU. EU has a working mechanism to achieve the full integration of accounting practises .

While IFRS implementation issues, the EU opened in front of the application, in what direction will be decided for SMEs become obvious in future times .

Need to accept that find applications of International financial standards in EU have a significant effects for to be used standards widely in the world. The most tangible results of this implementation has been seen in editing of Implementation of IFRS in listed companies.

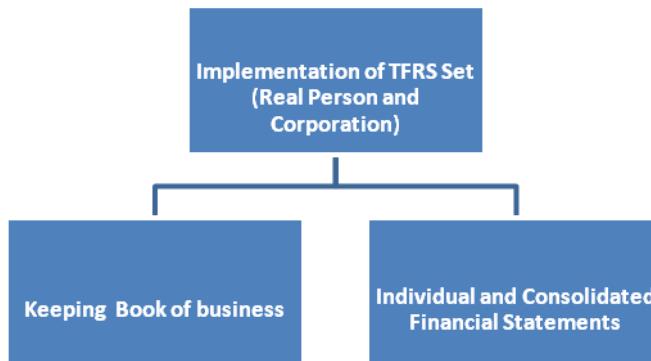
Union to apply IFRS in the EU to enforce regulations in many counties, including Turkey, in many countries on the implementation of IFRS set of regulations to be made easier.

In countries subject to regulations were released for companies that application of IFRS obligation is not set in the EU. In EU countries, it is essential that the 4 and 7 regulations implementing guidelines for companies outside of this arrangement. IASB has published IFRS for SMEs is currently applying for EU countries are not mentioned.In other words, unless the EU adopted the Standard ,this practice will not be mentioned in developed countries within the EU.Unless accepted standards of practice for SMEs in the EU 4. and 7. guidelines will continue to apply.

### **5.3.Situation in Turkey**

The Dynamics of IFRS practice in Turkey is Turkey's EU accession process.To some extent as a result of this process but largely to the initiative of the authorities concerned since 2005 International Financial Reporting Standards in Turkey with full compliance with IFRS has found applications. Viewed from this angle, the Companies in Turkey, in terms of public AccountAbility IFRS is not a problem for the Implementation of the set. Real challenge for Turkey is how to implement of accounting standards in companies that not obliged to give public accounts (mainly SMEs). It is obvious that The TCC proposal being discussed in Parliament (Bill) and recorded the important progress in this process. In other words implementing the provisions of the draft IFRS for SMEs that are missing parts will be completed.

Bill 88 / (1). The article "real persons and corporations to trade books, the amount while both the individual and consolidated financial statements do editing, just to follow and implement Turkey Accounting Standards Board published by Turkey, Accounting Standards , the conceptual framework in accounting principles and their integral part and the comments of them" provision, introduced.



**Figure 2:** Board of Education in Turkey according to the draft Framework for the Implementation of IFRS

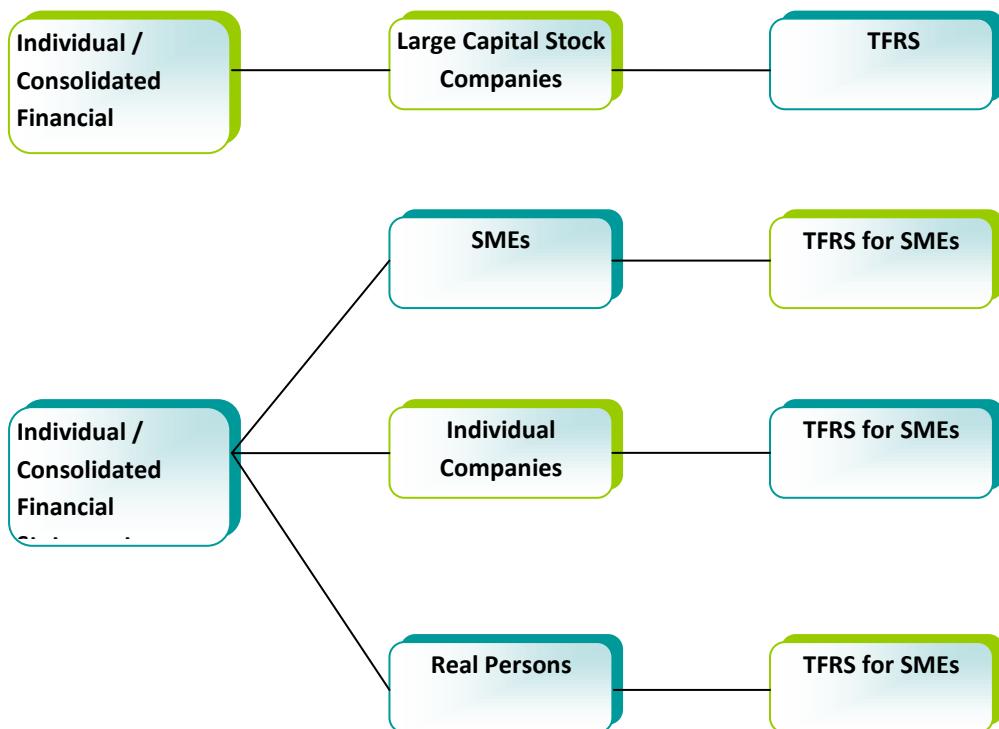
According to the provisions of the bill, companies will have to apply TFRS keep their accounting records until financial reporting .It is clear that the big companies would not be issues for implementation of this provision . However ,there could be problems in the SME size companies is foreseen.

For the same article 3. of in the paragraph "*Turkey Accounting standards boards be placed in special and exceptional standards for businesses and industries in different criteria as state regulations allowed in different ways by International Financial Reporting Standards ; those who implement them, status in question, are explained in footnotes of financial statements*" provision is included.

The draft of these regulations is defined an "exception" for implementation in SMEs TFRS set.This provision is based on for different scale enterprises in case of implementation of specific standards to allow development of specific standards by TASB. Naturally these standards will have to be developed in full compliance with IFRS. In other words this regulations is reference to developed by the IASB standard of IFRS for SMEs .Because in this case this matter was clearly expressed. IFRS for SMEs developed in Turkey

for the implementation of SME companies, TASB Turkey by the International Financial Reporting Standards as required to publish. This circumstance is a necessary condition for perspective to TASB activities..

TFRS set and how to implement TFRS standards for SMEs in companies is organized in Turkish Commercial Code and law on Application of the 13/2 (a). Accordingly this article, “*Turkey Accounting Standards board may publish Turkey Accounting Standards in line with IFRS for small sized capital companies and all sizes of companies, individual companies, real person transactions or industries. This case referred companies and businesses are applied mentioned specific standards. However, companies and businesses can apply rather than spesific standards with Turkey Accounting Standards fully compatible with IFRS*” rule will be implemened by companies



**Figure 3:** Scope of Application TFRS According to the draft TCC

Accordingly, the public accountability of corporations (publicly traded companies and banks and insurance companies) naturally will be applied TFRS set , and the Small-scale capital firms and individual companies with real people traders will be applied TFRS standards for SMEs. According to the same provision also non SME sized (Large) capital firms will be applied TFRS set. Such an arrangement be made for Small- Scale companies as the reasons set forth in the relevant articles of the relevant international organization (the IASB) and prepared by the standard issues of SMEs in Turkish law, the legal infrastructure is to be reflected.

How many companies will be involved in the regulation of the draft, are unknown. Revenue Administration of the 2008 year-end number of taxpayers are taken into account, the total number of 635 042 SMEs with capital companies and how it is not possible to determine the class will be included. In addition, there is no reliable data for this number is how much active in our hands.

TYPE OF TAXPAIRS	2004	2005	2006	2007	2008
Real People	3.212.471	3.099.868	3.148.767	321.707	3.221.277
Limited Company	540.153	509.074	526.242	547.726	554.377
Partnership	48.979	47.272	47.177	46.332	43.690
Joint-Stock Company	95.278	84.000	82.734	81.714	80.664
Others	75.303	77.495	77.296	81.476	84.142
Cooperative	58.814	53.419	51.401	49.331	47.202
Unlimited Company	5.117	43.399	4.002	36.682	3.373
Unincorporated Limited Partnership	526	393	345	309	274
Limited Company with Securities	56	48	38	2	1
<b>Total</b>	<b>4.036.697</b>	<b>3.876.284</b>	<b>3.938.002</b>	<b>4.027.648</b>	<b>4.035.000</b>

**Table 4:** Number of active taxpayers As species

The process of Implementation of standards in SME sized companies smooth the definition of SME based on a key role. Accordingly, the bill's definition of SMEs should coincide with the IASB definition of SME.

In the first section of standards Small and Medium Sized businesses definition explained. Accordingly ,SMEs are defined as "SMEs are Businesses without Public accountability obligations and publish general purpose financial statements for external users". A company's public accountability obligations that are Company's debt and equity instruments (stocks), domestic or foreign capital market or over the counter market, including local and regional markets the public in an open market transactions, or that such a market process to see these instruments exported in the process of being and existance . Assets, with the title custodian be maintained on behalf of a large mass counterparts. (Banks, Investment Banks, mutual funds, insurance companies, pension companies, pension funds, brokerage companies, factoring companies, leasing companies and other financial institutions, etc.)

1523. draft of the article describes the capital stock companies according to the scale of companies. Accordingly,

1. Companies that are not exceeded at least two of the following three criteria is considered to be small capital stock companies:
  - Be found with taken out loss from asset Balance sheet total of six million TL
  - The last day of the accounting period (balance sheet day) of total sales in the previous twelve months twelve million TL
  - Fifty people yearly average number of employees.
2. Companies that exceeds at least two criteria of the first paragraph and at least two of the following three criteria are not exceeded two will be considered medium-size capital companies :
  - Be found with taken out loss from asset Balance sheet total of twenty million TL
  - The last day of the accounting period (balance sheet day) of total sales in the previous twelve months fifty million TL
  - Two hundred and fifty-people yearly average number of employees.
3. Cabinet size can be increased up to ten times or ten or one to reduce.
4. In the second paragraph of the criteria for at least two of the largest companies in excess of capital is considered capital firm.

A company that its Securities in Turkey securities exchange or traded securities in the list of the countries declared each year from Capital Markets Board or traded to quotas have been or quotation for the reference made in, have not exceeded this clause in the criteria shall be deemed to be even greater capital company.

Projects in the SME definition, to the obligation of accountability to the public transmission to the 4. article of the indirect causes are no contradictions between the two definitions. Besides this, the bill is clearly a wider scope of application. It is clear that scope of application of the draft, is the larger than definition. To the effect that for the implementation of standards,the obligation of non public accountability condition in addition to publishing general-purpose financial statements for external users condition.

Accordingly, although the SME scale of a company may not apply this standard if it does not publish general purpose financial statements . This situation could be used as, a "way out" particularly for micro-enterprises. Such a practice is in draft form that is not in question.

Implementation of standards in Turkey, an EU accession perspective of Turkey is the other dynamic. Turkey's EU-led negotiations process with regard 12.30.2008 dated Official Gazette "Turkey's EU Acquis Compliance Program" in the Corporate Law with reference the commitment of the standard application process is another decisive factor. Accordingly the TASB have new tasks to publish a new application to comply with the EU's Fourth Directive based on the General Communiqué Accounting System, and to publish a new application in order to adapt EU's Seventh Directive. With this published papers for companies that have no obligation to public accountability will have been new arrangements compatible with EU's fourth and seventh directives.In clear terms according to these commitments the Accounting Practice General Communiqué ' published by the Ministry of Finance that the companies have to follow according to the EU's Fourth Directive to be revised and the consolidation in accordance with the EU Seventh Directive will need to create a new notification. This process is obvious that the bill had predicted structure and the TASB Board of Education's Financial Reporting Standards in Turkey is against the development perspective. Under Compliance program in the case of arrangements of old accounting system we will not be compatible with the International Financial Reporting Standards.The implementation of accounting standards for SMEs have three dimension such as TCC Bill, Turkey's EU accession process and the perspective of TASB.These three dimension will be balanced or conflicts will be eliminated.But It should be stated that these conflicts are pointed a temporary situation. And This temporary situation largely disappeared with description of EU's position and TCC draft be enacted

## 6. Conclusions

Disclosure of financial information of companies that have a full and fair benefit to all parts in the economy. This is the obligation of accountability to the public until the company is also true for the SME-size companies. In this context, the IFRS for SMEs issued by IASB is assuming a very important function. The financial reporting standards for, SMEs are released SMEs, financial reporting quality, comparability and to recognize information apply the to generate opportunities to all over the world and brings SMEs a chance to open foreign markets.

The standard application of the provisions that the simpler from the full set of IAS / IFRS 's, but also largely based on issues similar to the IAS / IFRS CPCs, SMEs when they pass large business class makes a full set of IAS / IFRS applications easier.

International Financial Reporting Standards for SMEs are separated from full set, taken into consideration of SME needs,simplified without leaving IAS and IFRS's underlying philosophy, and which introduced in various country.For this reason SMEs in Turkey implement these standards without undue delay so that SMEs can easily find finance sourcing and open foreign markets.

Financial reporting standards for SMEs effective application contains a number of potential problems and to have a significant majority of SMEs in the economy makes implementation of standards difficult. First of all for the implementation of the standard needs to be transferred to domestic law. In this issue priorities and preferences of each country is different. In Turkey, the process is no exception. Implementation of standards in Turkey must be enacted in the event of the draft become law of the TCC.

## References

- Akdoğan, Nalan.(2010)."KOBİ Finansal Raporlama Standartlarına Genel Bakış ve Tam Set IAS/IFRS'lerden Farklığı", <http://www.tmsk.org.tr/> makaleler/Diger/N\_Akdoğan.pdf
- Aslan, Sinan.(2007).Küçük ve Orta Büyüklükteki İşletmeler(KOBİ) İçin Uluslararası Finansal Raporlama Standartları (UFRS) İle Global Uyum Süreci, The University of Marmara Journal, C.XXIII, S.2,s.203-221.
- Celik, Orhan. (2006). Uluslararası Finansal Raporlama Standartlarının KOBİ'lerde Uygulanması: Temel Dinamikler ve Potansiyel Sorunlar. Ankara: TESMER Publication No. 73.
- Çelik, Orhan. (2010). "Küçük Ve Orta Büyüklükteki İşletmeler İçin Uluslar arası Finansal Raporlama Standardı: Genel Bakış". <http://www.tmsk.org.tr/> makaleler/Diger/OrhanÇelik.pdf

Demir,Volkan.(2007).”KOBİ’ler İçin UFRS”nin Son Taslağı ve Değerlendirmeler, Journal of Financial Solutions Year:17, p.80,p.43-58.

IFRS For SMEs, International Financial Reporting Standard (IFRS) for Small and Medium-Sized Entities (SMEs), International Accounting Standards Board (IASB), 2009.

Karakaya,Mevlüt.(2010).”KOBİ’lerin Küresel Ekonomik İklim Uyumunda Uluslar arası Finansal Raporlama Standartları”. <http://www.tmsk.org.tr/> makaleler/Diger/MEVLUT\_KARAKAYA.pdf

Sayar,Zafer.(2008).”Küçük ve Orta Büyüklükteki İşletmelerin Çağdaş Finansal Raporlama Dünyası: KOBİ Muhasebe Standartları”.Ankara: TESMER Publication No:79.

Türkiye Muhasebe Standartları; TASB, 2010