

# Evaluation and Audit of Financial Statements according to SME TFRS

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**Abstract** Differences of accounting standards which apply in countries, make difficult comparing of financial information, pose an obstacle in the process of fund-raising, cause some intricacies related purchase-sale and integration of business. The Elimination of these problems and In order to harmonize the accounting standards applicable in the country, International Financial Reporting Standards (IFRS) are published by International Accounting Standards Board (IASB) and concordantly Turkish Financial Reporting Standards (TFRS) by Turkish Accounting Standards Board (TASB) in Turkey. By the reason of being complex and unclear of IFRS/TFRS, SME IFRS are published for Small and Medium Enterprises (SME) which have difficulty in evaluation of financial statements. Concordantly SME TFRS are published in Turkey. Aim of our study is to research which accounting standards SME will apply, when they evaluate their financial statements and the financial statements that prepared will be subject to audit or not. Also, we currently try to explain practicability of SME TFRS perception of accounting occupation members and SME TFRS's effects on audit by way of the questionnaire study. As the result of this study, it located that accounting occupation members are undecided about their perception of SME TFRS. Also we got results that occupation members impress SME audit.

**Key words** IFRS, TFRS, SME TFRS, audit

DOI: 10.6007/IJARAFMS/v6-i4/2366

URL: <http://dx.doi.org/10.6007/IJARAFMS/v6-i4/2366>

## 1. Introduction

Every country has its own distinctive accounting system and prepares financial transactions and reporting processes in accordance with their own accounting practices. However, boundaries of the countries gain an international dimension owing to the fact that capital movements have gained an international dimension and that the number of multinational corporations has increased. Therefore, it is essential that business organizations prepare their financial statements and reporting separately based on different practices of countries. And such a process leads to confusion. This is why it becomes crucial to create international accounting standards in order to avoid such confusion.

Having a great share about 95% numerically among the business enterprises in most of the countries today, SMES have great importance in the globalizing world. Published IFRSs are a little bit confusing and difficult to fulfil the requirements of SMESs and SME IFRS was published in 2009 in order to prevent such confusion. Constituting 99.8 % of total business enterprises, 75.8% of employment, 54.5% of salaries and wages, 63.3% of endorsement, 59.2% of export, 39.9% of import and 65% of sales in Turkey based on 2014 data, SME TFRS was published in 2010 for SMES in parallel with SME IFRS.

Pursuant to Recent TTC (Turkish Trade Code) issued in 2011, business organizations with public accountability are obliged to calculate their financial statements and reporting in accordance with TFRS and those without public accountability prepare their financial statements and reporting in compliance with SME TFRS. Furthermore, it is obligatory in TTC for Limited and Joint Stock Companies to have their financial statements and reports subjected to independent audit.

In the study it is discussed the evaluation of the financial statements prepared by companies without public accountability in accordance with SME TFRS and whether the audition for these financial statements are performed or not. Perception of SME TFRS by members of accounting profession and the impacts of members of the profession on the audits in SMES is evaluated through survey study.

## 2. Literature review

In the study by Özkan and Özşahin (2012), opinions of members of profession about SME TFRS were determined thereby conducting a questionnaire to the members of accounting profession working in Kayseri Province and it was analysed whether there is any difference based on demographic characteristics. At the end of the study, it was set forth that there occurred a consensus about the fact that business organizations would carry out more transparent reporting thanks to operation of the standard, reliability of the tables would increase, language uniformity would be ensured in accounting, importance of accounting profession would increase, workload would increase and that members of profession should be trained.

In the study conducted by Güneş, Durmuş and Solak (2011), it was found out through the questionnaire conducted on members of accounting profession registered in Elazığ and Malatya provinces that level of knowledge of members of profession about TFRS is insufficient. Furthermore, members of the profession stated that they have a weak belief that SME TFRS could be implemented on time and in a successful way.

In the study tried to be conducted throughout Turkey by Çankaya and Hatipoğlu (2011), it was aimed to determine the factors to have an impact on the expectations of members of accounting profession regarding the adaptation and operation of IAS/IFRS in our country. Emphasis was laid on the result that training problem regarding the standards and current set of standards are not in compliance with SMEs.

With the survey study performed on the members of accounting profession in the provinces randomly selected from all regions in Turkey in the study by Erdoğan and Dinç (2009), it was raised concern about the fact that a significant part of members of accounting profession have insufficient information about the standards.

## 3. SME Accounting standards

Creating a common language in accountancy started following an advisory decision taken in 10th World Accountants Congress performed in Sydney in 1972. International Accounting Standards Committee (IASC) was founded in June 1973 and internationally accepted accounting rules were started to be created (Muthupandian, 2013). In the 11th World Accounting Congress gathered in Munich in 1977, International Accountants Federation was established. The Federation become a global body of accounting profession (Güneş et al., 2011). Making legal amendments in 2000, International Accounting Standards Committee was turned into International Accounting Standards Board, and International Financial Reporting Process was commenced in 2005. International Financial Reporting Standards for SMEs were published in 2009 (Karakaya, 2010).

SME TFRS issued in 2010 in Official Gazette No. 27746 consists of three sections. In the first section, there are 35 Chapters and a Dictionary, in the second part there is an Application Guide and in the final section Remarks Regarding Control Lists are included (Official Gazette, 2010).

## 4. Evaluation of financial statements according to SME TFRS

The objective of financial statements is to provide useful information in general about financial status, activity results and cash flows to a large user group who has no opportunity to be able to request information. Besides, financial statements indicate administrative performances of enterprise directors, i.e., their accountability regarding the resources they manage (Demir and Bahadır, 2011).

The purpose of preparing and reporting financial statements in SME TFRSs is not to respond to the investor but to fulfil user requirements. Thanks to SME TFRS practice, it was proceeded to “information-oriented accountancy” instead of “tax-oriented accountancy” and it was switched to “principle-based” practice from “rule based” application. It does not envisage any standard financial statement format or chart of accounts. It is planned to use financial statement formats and charts of account within the application in Turkey. Assets and liabilities, incomes and expenses and cash flows are classified separately. Financial statement elements are redefined. Recent measure and evaluation criteria were introduced. More detailed information is described about accounting policies and measurement and valuation guidelines.

## 5. Audits in SMEs

The aim of the audit is to present to the firms, owners and shareholders of institutions and organizations, their creditors and credit agencies, labour and management institutions, economic and administrative units of state together with tax offices that records in their financial statements are realistic, correct and reliable (MHUD, 1999).

Council of Ministers issued a draft resolution about the determination of corporations to be subjected to independent audit. There are two lists in the draft. The resolution will come into force as of 2013 for the companies that are subject to list no. I and as of 2014 for those which are subject to list no. II.

List no. I in brief include the companies, banks and financial corporations, subject to Capital Markets Board (CMB), that are dealt in BIST (Istanbul Stock Exchange).

As to the List no. II, there are companies with share capitals, either on their own or with their subsidiaries that fulfil at least two of the following three criteria, whose;

- Size of assets is TL 150,000,000 or over,
- Annual net sales revenue is TL 200,000,000 or over,
- Number of employees is 500 and over.

At the same time, companies with share capitals shall be subjected to independent audit provided that they bear at least two of the requirements specified in List no. II in two consecutive years.

Therefore, there are scarcely any SME to go beyond the criteria in List no. II when it comes to the definition of SME and the operation. When considered in this regard, it can be said that SMEs will not be subjected to independent audit. Independent audit is certainly an investment worth for increasing the profits of shareholders and enlarging the SME.

## 6. Objective of the research

The main objective of the study is to reveal the perception of TFRS prepared for SMEs by members of accounting personnel and the impacts of members of profession on the audits in the SMEs. What is more, it is also considered whether they have independent audit authority as well as their professional titles, professional seniorities, working statuses.

## 7. Scope and method of the research

The research involves CCPAs (Chamber of Certified Public Accountants) and CPAs (Certified Public Accountants) carrying on business in Erzurum. By the date on which the research is conducted, there 161 members of profession registered in Erzurum Chamber of Certified Public Accountants. No sampling selection was performed in the study and it was aimed to reach entire of the main mass; however only 108 members of profession were negotiated despite all trials due to contact problem and that members of profession are not in their place. As a result of the negotiations, feedback could be received from 63 members of profession. Such rate corresponds to a 58% rate of return. While the survey questions are prepared, the studies of Azzem Özkan and Filiz Özşahin (2012) and the studies by Aylin Poroy Arsoy and Tuba Bora (2012) are utilized. All of the obtained surveys are deemed to be proper for evaluation. Data obtained from the surveys were transferred into electronic environment via *Statistical Package for Social Science for Windows* (SPSS 20) program and these programs are utilized to analyse the data and test the hypothesis.

In the survey study, Cronbach Alpha coefficient was calculated in order to measure reliability of 40 items in total prepared in 5-point Likert type scale measuring the levels of perception of SME TFRS by the members of accounting profession and the impacts of members of accounting profession on the independent audit in SMEs and  $\alpha$  value was found as 0.79. This coefficient indicates that the items in the survey have rather a reliable characteristic.

## 8. Results and recommendations

It is thought that SME TFRS, which is simpler and more understandable than TFRS, will help decision makers to access the comparable, transparent and reliable financial information within a shorter time thereby ensuring them to speak the same language in their financial statements and reporting processes in all SMEs.

As a consequence of transfer of determination authority to determine the companies subject to independent audit by TTC to Council of Ministers pursuant to an article, most of the SMEs do not comply with the scope outline carried out by Council of Ministers. Therefore, SMEs are not obligatory to perform independent audit in their financial statements and reporting processes. However; independent audits to be performed in financial statements and reporting will gain a lot of favours to SMEs. When SMEs in our country are analysed, in general there are problems about accounting problems and these could be solved through consultancy taken from independent audit companies.

As a result of the survey study, it was concluded that there is no absolute decision about the perceptions of SME TFRS by the members of accounting profession. Furthermore, it was determined that members of profession have an impact on the audits in SMEs. As a consequence of the hypothesis dealt in the research, it was ascertained that there is difference among those members of profession who find themselves adequate and think that they have sufficient competence about their Professional seniorities as well as general information and practices of SME TFRS. Such a difference stems from members of profession who have experience for 10 years and below. It was observed that this difference was ascertained because of the fact that SME IFRS was handled after 2003 and that it came into effect in Turkey as of 2010. However; no difference was observed among other variables and scales.

Recommendations regarding the operation of SME TFRS are as follows;

- It is thought that this practice was commenced earlier. It is essential that implementation should come into force after the substructure considering the implementation be completed within a short time and that the system should be simplified. Besides, it should be organized in compliance with tax rules. In addition to these, it would be proper to grant amnesty to the financial statements of the firms since there is missing or wrong information in the financial statements of the firms in the previous practice.

- It is essential that company substructures should be well organized, audited before applying SME TFRS and it should be proceeded with operation after it is reported that companies are ready.

- It is required that certified public accountants should be contacted about the operation of SME TFRS and the problems should be discussed. Furthermore, it is essential to contact only with the certified public accountants in the operations, and taxpayers should be trained.

- As performance of independent audits in the SMEs will result in financial burdens on SMEs, they may lead to bankruptcy therewith. This is with, it is required that SMEs be provided financial support and it is ensured that they are able to compete.

Moreover, it was reported that application was delayed due to the fact that necessary infrastructure of SME TFRS, which should have started to be implemented in 2013 following the negotiations performed thereof, is not ready and that required trainings about SME TFRS were not provided. In the negotiations performed with public accountants, it is envisaged that SME TFRS operation in Turkey will last for a long time. For this reason, it is significantly important to complete infrastructure studies regarding SME TFRS as soon as possible so that the application could be operated healthily.

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