

## Effects Of Financial Reporting Differences In Between BOBİ FRS And MSUGT On Financial Statement Analysis: An Investigation On Financial Structure Ratios

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### ABSTRACT

*This study struggles to analyze to what extent financial structure-related ratio analysis is affected by the differences in between historical financial data presented in statement of financial position prepared in accordance with BOBİ FRS and in balance sheet prepared in accordance with the General Communiqué on Application of Accounting System of Turkey (MSUGT) and Turkish Tax Procedure Law (VUK), which are two main determinants in preparing financial statements in Turkey for the purpose of tax. The effects of the reporting differences between BOBİ FRS and MSUGT/VUK on financial structure ratios is revealed by means of a case study. As seen from the results of the analyses in the case study, there are quite significant differences between the data prepared as per two different applications. We conclude that differences in between BOBİ FRS and MSUGT/VUK affect results and comments obtained from financial structure-related ratio analysis.*

**Keywords:** BOBİ FRS, MSUGT/VUK, Financial Structure Ratios, Financial Statement Analysis.

**Jel Classification:** M40, M41, M49.

### BOBİ-FRS Ve MSUGT Arasındaki Raporlama Farklılıklarının Finansal Tablo Analizine Etkileri: Finansal Yapı Oranları Çerçevesinde Bir İnceleme

#### ÖZET

*Bu çalışma, finansal yapıya ilişkin oran analizinin, BOBİ FRS'ye göre hazırlanmış finansal durum tablosunda sunulan tarihsel finansal veriler ile Türkiye'de vergi beyanı amacıyla finansal tabloların hazırlanmasında iki ana belirleyici olan Muhasebe Sistemi Uygulama Genel Tebliği (MSUGT) ve Türkiye Vergi Usul Kanunu (VUK) uyarınca hazırlanmış bilançodaki farklardan ne ölçüde etkilendiğini analiz etmeye çalışmaktadır. BOBİ FRS ve MSUGT / VUK arasındaki raporlama farklılıklarının finansal yapı oranları üzerindeki etkileri bir örnek olay çalışması ile ortaya çıkmaktadır. Örnek olay incelemesindeki sonuçlardan da anlaşıldığı gibi, iki farklı uygulamaya göre hazırlanan veriler arasında oldukça önemli farklılıklar bulunmaktadır. BOBİ FRS ve MSUGT/VUK arasındaki farkların finansal yapıyla ilgili oran analizinden elde edilen sonuçları ve yorumları etkilediği sonucuna varılmıştır.*

**Anahtar Kelimeler:** BOBİ FRS, MSUGT/VUK, Finansal Yapı Oranları, Finansal Tablo Analizi.

**JEL Sınıflandırması:** M40, M41, M49.

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## 1. INTRODUCTION

The Turkish Accounting Standards/Turkish Financial Reporting Standards (TMS/TFRS in Turkish abbreviation, TMS/TFRS herein) which enforce the reviews of the Public Interest Entities with all enterprises subject to independent audit of other businesses applying as a volunteer at January 1, 2018 and after periods beginning on Large and Medium-Sized Enterprises are required to apply the Financial Reporting Standards for Large and Medium Sized Enterprises (Öztürk, 2017: 594). Table 1 indicates the thresholds specifying size of companies that will apply the BOBI FRS and will be subject to independent audit.

**Table 1.** The Thresholds Specifying Enterprises Subject to BOBI FRS

Size of Companies	Explanation
<b>Large Sized Enterprises</b>	Total Assets: ₺75 million and more,
	Annual net turnover: ₺150 million and more,
	Average number of employees: 250 employees and more,
	At least two of the criteria, if any, together with its subsidiaries enterprise providing consecutively two reporting periods.
<b>Medium Sized Enterprises</b>	Total Assets: ₺35 million and more,
	Annual net turnover: ₺70 million and more,
	Average number of employees: 175 employees and more,
	At least two of the criteria, if any, together with its subsidiaries, enterprise providing consecutively two reporting periods.
<b>Micro Enterprises</b>	Micro enterprises are subordinate and apply the legislation or BOBI FRS - IAS/IFRS.

Source: Gençoğlu, 2017: 2

With the implementation of the BOBI FRS, the enterprises in certain size in Turkey (see Table 1) need to present their financial information through the financial statements prepared in accordance with the BOBI FRS. As known, the BOBI FRS constructed in accordance with the International Accounting Standards (IAS) ensure that enterprises' asset and liability status is presented in a more realistic manner compared to the financial statements prepared in accordance with the General Communique on Application of Accounting System of Turkey (MSUGT in Turkish abbreviation, MSUGT herein) and Turkish Tax Procedure Law (VUK in Turkish abbreviation, VUK herein), which are two main determinants in preparing financial statements in Turkey for general purpose and for the purpose of tax.

Therefore, when analyzing enterprises' financial statements, it would be quite reasonable and logical choice for users of financial statements (stakeholders) such as credit institutions, current and potential/prospective investors, owners, senior management, and business environment to prefer financial statements prepared in accordance with the BOBI FRS rather than the financial statements prepared in accordance with the MSUGT/VUK in order to analyze financial statements.

One of the methods commonly used in the analysis of financial statements based on account items, account groups, and account classes is the ratio analysis. Considerable and meaningful knowledge on enterprise's economic and financial structure, profitability, effectiveness, efficiency, efficient use of economic assets; liquidity etc. can be obtained by using ratio analysis. Ratios can be classified as follows by considering intended use of them in

evaluating of operational results and financial structure of enterprise (Çabuk, 2013: 64): (1) Liquidity ratios, (2) Financial structure ratios, (3) Asset-utilization ratios, (4) Profitability ratios, (5) Stock market performance ratios.

Among performance-related other indicators, financial indicators of enterprises are used in order to measure their financial performance. It is quite important for stakeholders to assess financial structure of enterprise they concern about by using financial structure-related ratio analysis with historical financial data.

In this study, we focus on financial structure ratios in order to reveal to what extent financial structure-related ratio analysis is affected by the differences in between historical financial data presented in balance sheet prepared in accordance with BOBI FRS and prepared in accordance with the MSUGT/VUK, which are two main determinants in preparing financial statements in Turkey for the purpose of tax.

Reminder of the study is organized as follows. Firstly, the explanation regarding BOBI FRS related studies conducted in Turkey is presented in order to reveal how this study is different from others. Secondly, financial structure ratios is explained. Thirdly, the reporting differences between BOBI FRS and MSUGT/VUK on Financial Structure Ratios are discussed. Then the effects of the reporting differences between BOBI FRS and MSUGT/VUK on financial structure ratios is revealed by means of a case study. The final section provides a general evaluation on effects of the reporting differences between BOBI FRS and MSUGT/VUK on financial structure ratios and to what extent.

## **2. LITERATURE REVIEW**

Ataman and Cavlak (2017) compared the TMS/TFRS to the BOBI FRS and discuss the differences and similarities between two Standards in their study. As a result, they made an evaluation that the BOBI FRS had different provisions for large and medium-sized enterprises.

Doğan (2017) investigated the general features and provisions of BOBI FRS and compare the provisions of the BOBI FRS with TMS/TFRS. As a result, he concluded that the BOBI FRS had some similarities in respect with the TMS/TFRS and generally include more simplified provisions.

Çatıkkaş, Esen and Şuekinici (2018) evaluated the reporting time and recognition of revenue and relevant costs in construction works in terms of the BOBI FRS. As a result, they asserted that one of the most important differences between the BOBI FRS and the existing tax-based reporting legislation was the long-term construction contracts.

Gökçen and Öztürk (2017) compared the features of actual and full cost methods. Besides, they discussed how the actual cost method should have a cost recording system within the framework of the regulations in the TMS/TFRS and BOBI FRS.

Kıymetli and Özbirecikli (2018) investigated what the BOBI FRS brings to accounting practices for large and middle-sized enterprises in Turkey by comparing principles in the BOBI FRS to principles in the TMS/TFRS and MUSGT/VUK. As a result, they concluded

that the BOBI FRS could fill in the missing parts in the MSUGT/VUK from fair value-based reporting point of view. They also asserted that the BOBI FRS could be implemented more easily than the TMS/IFRS by large and medium-sized enterprises.

Yelgen and Uyar (2018) investigated the issues of initial recognition, recognition, depreciation and tangible assets in terms of the BOBI FRS. They asserted that tangible assets were in compliance with the TMS/IFRS in the subsequent measurement, borrowing costs and depreciation issues, but were different from the TMS/IFRS at the point of application of maturity differences.

Unlike the previous studies conducted on the BOBI FRS-related topics in Turkey, this study discusses the BOBI FRS from financial statement analyses point of view. Specific aim of this study is to reveal to what extent financial structure-related ratio analysis is affected by the differences in between historical financial data presented in accordance with the BOBI FRS and presented in accordance with the MSUGT/VUK.

In this context, it is possible to assert whether financial statements prepared in accordance with the BOBI FRS are more useful than tax-oriented financial statements for financial statement analyses.

### 3. FINANCIAL STRUCTURE RATIOS

Financial ratios indicate the financial structure of enterprise and the ratios that are indicative of their long-term debt payment power. These rates, also called leverage ratios, are used to analyze how an enterprise is measuredly financed, to know to what extent it has financial risk, and to assess how safety its shares for creditors are (Bolak, 2010: 34). Financial ratios provide significant information on whether an enterprise can pay its liabilities in due course of time, continue in operational existence for the foreseeable future, increase value of its assets and realize cash flow as it expects. The high owners' equity in total assets reduces the risk for creditors. It is the primary duty of financial manager/officer to establish a balance of owners' equity and total liabilities at optimal level by considering the activity-area and characteristics of enterprise (Çabuk, 2013: 66). The major ratios being used in the financial ratio analysis are indicated in Table 2.

**Table 2.** Financial Structure Ratios

Variable	Measure	Explanation
<b>Debt Ratio</b>	Total Liabilities / Total Assets	It indicates what percentage of assets is financed by liabilities.
<b>Shareholder Equity Ratio</b>	Shareholder Equity / Total Assets	It indicates what percentage of assets is financed by partners or owners.
<b>Debt to Equity Ratio</b>	Total Liabilities / Shareholders' equity	It indicates the relationship between liabilities and owners' equity.
<b>Short-term debt to Total Assets</b>	Short-term debt / Total Assets	It indicates how much of the economic assets will be covered by short-term debt.
<b>Long-term debt to Total Assets</b>	Long-term debt / Total Assets	It indicates how much of the economic assets will be covered by long-term debt.

Source: Gümüş et al., 2017: 5

**Table 3.** Generally Accepted Accounting Values of Financial Ratios

Variable	Generally Accepted Accounting Value	Annotation
Debt Ratio	50%	In inflationist economies, it may rise to 70%.
Shareholder Equity Ratio	50%	In inflationist economies, it may fall to 30%.
Debt to Equity Ratio	1	
Short-term debt to Total Assets	33%	In economies the finance charge cost is high, it may rise up to 50%.
Long-term debt to Total Assets	17%	A higher rate may be accepted provided that the short-term debt is reduced.

Source: Çabuk, 2013: 66-69

#### 4. THE REPORTING DIFFERENCES between BOBI FRS and MSUGT/VUK ON FINANCIAL STRUCTURE RATIOS

There are differences between the BOBI FRS and MSUGT/VUK regarding the reporting of financial instruments and shareholders' equity in the financial statements. The reporting differences between the BOBI FRS and MSUGT/VUK are presented in Table 4.

**Table 4.** The Reporting Differences between BOBI FRS and MSUGT/VUK

Receivables and Payables	
BOBI FRS	MSUGT/VUK
-Receivables and payables with maturities of one year or less are valued with nominal value while receivables and payables with maturities longer than one year are valued at amortized cost.	-Receivables and payables are valued with nominal value.
Debt Instruments	
BOBI FRS	MSUGT/VUK
-Debt instruments such as time deposits, public-private sector bonds, notes or treasury bills are valued at amortized cost and the difference is reflected in profit or loss accounts.	-Debt instruments are valued with stock exchange price. -Bonds are valued at nominal value.
Owner's Equity Instruments	
BOBI FRS	MSUGT/VUK
-It is divided into publicly-traded and non-publicly-traded. The owner's equity instruments traded in the stock exchange are valued at their fair values and those non-traded in the stock exchange are valued at their cost value.	-Stocks are valued at the purchase price.
Other Financial Instruments	
BOBI FRS	MSUGT/VUK
-Asset backed securities and derivative financial instruments are reported in this range. They are measured with fair value both initial recognition and subsequent periods. Measurement differences are reflected in profit or loss accounts.	-There is no provision for the accounting and valuation of derivative financial instruments in VUK.

As shown in Table 4, there are similarities and differences between the BOBI FRS and MSUGT/VUK in terms of classification and valuation. In the following section, how the

differences affect the ratios used in the financial ratio analysis is determined on an application study.

**5. THE EFFECTS of THE REPORTING DIFFERENCES between BOBI FRS AND MSUGT/VUK ON FINANCIAL STRUCTURE RATIOS: AN APPLICATION STUDY**

The YK Incorporate (Inc.) operates with 210 employees, a total assets of ₺40 million and annual net sales revenue of ₺80 million in the textile sector in Turkey. Since the YK Inc. exceeds two of three thresholds to be subject to independent audit, it is included in the scope of independent audit and application of the BOBI FRS (Note: The YK Inc. is an enterprise of fiction. Any resemblance to actual events or persons or institution, is entirely coincidental).

The measuring of financial ratios is mostly related to the liabilities and owners' equity of financial statement. Investigating Table 4, it is seen that the main difference between the BOBI FRS and MSUGT/VUK is the period considered when classifying and recording transactions which cover a period of longer than one year. Thus, in this study, we specifically discuss the long-term liabilities and owners' equity data.

**Table 5.** The YK Inc. Balance Sheet January 01, 2018

Assets	Balance Sheet	Equity
<b>I. Current Assets</b>	<b>III. Current Liabilities (Short-Term)</b>	₺10,000,000
	A. Financial Liabilities	₺5,000,000
	B. Revenues Received in Advance and Accrued Expenses	₺5,000,000
	<b>IV. Non-Current Liabilities</b>	₺6,700,000
	A. Financial Liabilities	₺2,950,000
	-400 Bank Loans	₺2,000,000
	-405 Bonds Issued	₺950,000
	B. Trade Payables	₺3,750,000
	-420 Accounts Payable	₺450,000
	-421 Notes Payable	₺3,300,000
<b>II. Non-Current Assets</b>	<b>V. Equity</b>	₺23,600,000
	A. Paid – In Capital	₺10,000,000
	-500 Share Capital	₺10,000,000
	B. Profit Reserves	₺600,000
	-540 Legal Reserves	₺350,000
	-541 Statutory Reserves	₺250,000
	C. Period Net Income	₺13,000,000
<b>Total Assets</b>	<b>₺40,300,000</b>	<b>Total Liabilities and Equity</b>
		<b>₺40,300,000</b>

**5.1. Bank Loans**

On 01<sup>st</sup> of January 2018, YK Inc. gets ₺2,000,000 loan from X Bank. It is five-year term loan and the principal payment will be paid at maturity. Offered rates are 5% in 2018, 6% in 2019, 7% in 2020, 8% in 2021, and 9% in 2022.

**5.1.1. According to BOBI FRS**

Financial liabilities are recorded initially at the amount which is net of transaction costs incurred. Then financial liabilities are measured by using amortized cost at subsequent periods. The effective interest method is used for measuring the amortized value of the bank loan and allocating interest expenses to the financial statements for relevant period. Effective rate of interest is calculated as follows:

$$\text{Present Value} = \frac{\text{Maturity Value}}{(1 + t)^n}$$

Where, t is effective rate of interest, n is number of periods.

$$2,000,000 = \frac{100,000}{(1 + t)^1} + \frac{120,000}{(1 + t)^2} + \frac{140,000}{(1 + t)^3} + \frac{160,000}{(1 + t)^4} + \frac{2,180,000}{(1 + t)^5}$$

t = 0.07

**Table 6.** Amortized Costs (Bank Loans)

Date	(A) Amortized cost at the beginning of the period	(B) Interest expense Ax0.07	(C) Cash Flow	(D) Amortized cost at the end of the period (A + B - C)
12.31.2018	2,000,000	140,000	100,000	2,040,000
12.31.2019	2,040,000	142,800	120,000	2,062,800
12.31.2020	2,062,800	144,396	140,000	2,067,196
12.31.2021	2,067,196	144,703	160,000	2,041,899
12.31.2022	2,041,899	143,632	(2,000,000 + 180,000)	-

**5.1.2. According to MSUGT/VUK**

01.01.2018	Debit	Credit
102 Bank Accounts	2,000,000	
400 Bank Loans		2,000,000
<i>Recording get loan</i>		

-Annual accrual of interest:

12.31.2018	Debit	Credit
780 Financing Expenses	100,000	
381 Accrued Expenses of the Coming Months		100,000
Received in Advance		
<i>Transferring period of the loan interest</i>		

**5.2. Bonds Issued**

On 01<sup>st</sup> of January 2018, YK Inc. has issued a five-year term bond at ₦950,000 and has annual coupon rate of 10%, face value of ₦1,000.00.

**5.2.1. According to BOBI FRS**

Financial liabilities with maturities of one year or less are valued with nominal value while financial liabilities with maturities longer than one year are valued at amortized cost. Financial liabilities are recorded initially at the amount received from creditor, net of transaction costs incurred. The effective interest method is used for measuring the amortized value of the bond issued and allocating interest expenses to the financial statements for the relevant period. Effective rate of interest is calculated as follows:

$$\text{Present Value} = \frac{\text{Maturity Value}}{(1 + t)^n}$$

Where, t is effective rate of interest, n is number of periods.

$$₦950,000 = \frac{₦100,000}{(1 + t)^1} + \frac{₦100,000}{(1 + t)^2} + \frac{₦100,000}{(1 + t)^3} + \frac{₦100,000}{(1 + t)^4} + \frac{₦1,100,000}{(1 + t)^5}$$

t = 0.1134

**Table 7. Amortized Costs (Bond Issued)**

Date	(A) Accounting valuation	(B) Interest expense	(C) Reported interest expense A x 0.1134	(D) Amortized value (C – B)	(E) Amortized cost at the end of the period (A + D)
12.31.2018	₦950,000.00	₦100,000	₦107,666.40	₦7,766.40	₦957,766.40
12.31.2019	₦957,766.40	₦100,000	₦108,647.50	₦8,647.50	₦966,413.90
12.31.2020	₦966,413.90	₦100,000	₦109,628.40	₦9,628.40	₦976,042.30
12.31.2021	₦976,042.30	₦100,000	₦110,726.40	₦10,720.60	₦986,763.00
12.31.2022	₦986,763.00	₦100,000	₦111,936.80	₦11,936.70	₦1,000,000.00



**5.2.2. According to MSUGT/VUK**

01.01.2018		Debit	Credit
102 Bank Accounts		₺949,900	
408 Discount on Securities Issued (-)		₺40,000	
780 Financing Expenses		₺10,000	
653 Commission Expense		₺100	
	405 Bonds Issued		₺1,000,000
<i>₺40,000 is bond discount that will be amortized in future periods.</i>			
<i>₺10,000 is bond discount amortized in current period.</i>			
12.31.2018		Debit	Credit
405 Bonds Issued		₺200,000	
780 Financing Expenses		₺100,000	
	304 Current Portion of Bonds Payable		₺300,000
<i>Current installments of short-term converse current installments of long-term bonds</i>			

01.01.2018		Debit	Credit
153 Merchandise		₺3,000,000	
191 Value Added Tax Deductible		₺540,000	
324 Deferred Overdue Expense		₺300,000	
	100 Cash		₺540,000
	421 Notes Payable		₺3,300,000
<i>Notes Payable</i>			

12.31.2018		Debit	Credit
780 Financing Expenses		₺96,840	
	324 Deferred Overdue Expense		₺96,840
<i>Recording the delay interest expenses in 2018</i>			

**5.3. Notes Payable**

On 01<sup>st</sup> of January 2018, YK Inc. purchases X merchandise which is ₺3,000,000 in cash, note payable for ₺3,300,000 (a 36-month-forward price) (plus 18% VAT). ₺540,000 is paid in advance.

**5.3.1. According to BOBI FRS**

Financial liabilities with maturities of one year or less are valued with nominal value while financial liabilities with maturities longer than one year are valued at amortized cost. At the end of the period, the portion of the current period ₺3.000.000, which is in the deferred overdue expense account, calculate according to the effective interest method and include in financial expenses in 2018.

-Effective Rate of Interest:

$$\text{Present Value} = \frac{\text{Maturity Value}}{(1 + t)^n}$$

Where, t is effective rate of interest, n is number of periods.

$$3,000,000 = \frac{3,300,000}{(1 + t)^3}$$

$$(1 + t)^3 = \text{₺}3,300,000 / \text{₺}3,000,000$$

$$(1 + t)^3 = 1.1$$

$$1 + t = \sqrt[3]{1.1}$$

$$1 + t = 1.03228$$

$$t = 0.03228$$

$$\text{Deferred Overdue Expense: } \text{₺}3,000,000 \times 0.03228 = \text{₺}96,840$$

### 5.3.2. According to MSUGT/VUK

$$F = A - \{A \times 360 / [360 + (m \times t)]\}$$

Where;

**F:** Measuring discount amount,

**A:** Par value of note,

**t:** Day to maturity of note,

**m:** Discount (interest) rate,

$$F = \text{₺}3,000,000 - \{\text{₺}3,000,000 \times 360 / [360 + (0.0975 \times 720)]\}$$

$$F = \text{₺}3,000,000 - \text{₺}2,510,460.25 = \text{₺}489,539.75$$

	12.31.2018		
657 Rediscount Interest Expense		Debit	Credit
	122 Discount on Notes Receivable	₺489,539.75	₺489,539.75

**Note:** Rediscount interest rate considered in rediscounting transactions of notes payable and notes receivable is determined by the Central Bank of the Republic of Turkey as 9.75% in 2018 (<http://www.tcmb.gov.tr>, 2018).

### 5.4. Accounts Payable

On 01<sup>st</sup> of January 2018, the YK Inc. buys for account X merchandise which is ₺450,000 in cash, 36-month, ₺500,000 (VAT has been neglected).

#### 5.4.1. According to BOBI FRS

On 31<sup>st</sup> of December 2018, the debt will be measured subject to rediscount. The maturity of debt is three years. The effective interest rate should be measured for 2018. Here, the cash price, maturity price and maturity period of the goods are certain. Based on this information, the effective interest rate is calculated as follows:

Cash price = ₺450,000

Deferred interest expenses = ₺500,000 – ₺450,000 = ₺50,000

Present value = Maturity value – Deferred interest expenses

Present value = ₺500,000 – ₺50,000 = ₺450,000

-Effective Rate of Interest:

$$\text{Present Value} = \frac{\text{Maturity Value}}{(1 + t)^n}$$

Where, t is effective rate of interest, n is number of periods.

$$₺450.000 = \frac{₺500.000}{(1 + t)^3}$$

$$(1 + t)^3 = ₺500.000 / ₺450.000$$

$$(1 + t)^3 = 1.1111$$

$$1 + t = \sqrt[3]{1.1111}$$

$$1 + t = 1.03574$$

$$t = 0.03574$$

**Table 8.** Amortized Costs (Accounts Payable)

Year	Book Value of January 1	Interest Expense	Cash Outflow	Book Value of December 31
12.31.2018	₺2,000,000	₺140,000	₺100,000	₺2,040,000
12.31.2019	₺2,040,000	₺142,800	₺120,000	₺2,062,800
12.31.2020	₺2,062,800	₺144,396	₺140,000	₺2,067,196
12.31.2021	₺2,067,196	₺144,703	₺160,000	₺2,041,899
12.31.2022	₺2,041,899	₺143,632	₺(2,000,000 +180,000)	-

**5.4.2. According to MSUGT/VUK:**

12.31.2018 153 Merchandise  420 Accounts Payable 420.01 X Enterprise Recording the delay interest expenses in 2018	Debit ₺500,000  Credit ₺500,000
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**5.5. First Issue of Shares**

The YK Inc. decides to increase its capital to ₺5.000.000 in 2018 and issue its share as 50 percent (50%). The bank, which mediated the sale, reported that the sale was completed and the sale amount was deposited in the bank account.

**5.5.1. According to BOBI FRS**

Shares are recorded as the owner’s equity when they are issued and the counter party obliged to provide cash or a different type of asset to the enterprise in response to such shares.

The amount to be obtained if the owner’s equity instruments are issued before the cash or other assets are obtained, it is indicated on the unpaid capital accounts in financial statement.

The YK Inc. decides to increase its share capital with a nominal value of ₺10 (₺10,000,000 / 1,000,000 shares). The book value of its shares are measured that the current owner’s equity divided by the number of shares (₺23,600,000 / 1,000,000 shares, ₺23.6). In line with the demand, The YK Inc. sold the shares at ₺25. Thus the YK Inc. is issued 500,000 shares with nominal value of ₺10.

Discount on Stock:

-Issue value : ₺12,500,000 (₺25 x ₺500,000)

-Nominal value : ₺5,000,000 (₺10 x ₺500,000)

-Discount on stock : ₺7,500,000

	12.31.2018			
501 Unpaid Capital		500 Share Capital	Debit	Credit
			₺5,000,000	₺5,000,000
<i>Commitment of the increased capital</i>				
	12.31.2018			
102 Bank Accounts		501 Unpaid Capital	Debit	Credit
		520 Additional Paid-in Capital	₺12,500,000	₺5,000,000
<i>Payment of the increased capital</i>				

**5.5.2. According to MSUGT/VUK**

	12.31.2018			
501 Unpaid Capital		500 Share Capital	Debit	Credit
			₺5,000,000	₺5,000,000
<i>Commitment of the increased capital</i>				
	12.31.2018			
102 Bank Accounts		501 Unpaid Capital	Debit	Credit
		520 Additional Paid-in Capital	₺12,500,000	₺5,000,000
<i>Payment of the increased capital</i>				

### 5.6. Hedge Accounting

On 01<sup>st</sup> of January 2018, the YK Inc. enters into a purchase contract with a Chinese raw material supply company for raw material by paying \$10,000,000 in 31<sup>st</sup> of January 2018. In order to hedge the exchange risk, the YK Inc. forms a forward contract with Xbank. Forward contract information is as follows:

Date of contract	: 01.01.2018
End of contract	: 01.31.2018
Forward Exchange	: \$1 = ₺4.00
Contract amount	: \$10,000,000
Dollar exchange rate:	\$1 = ₺4.10 (12.31.2018)

#### 5.6.1. According to BOBI FRS

On 01<sup>st</sup> of January 2018, the YK Inc. is registered in off-balance sheet accounts with forward contract with X bank (\$10,000,000 x ₺4.00 = ₺40,000,000):

01.01.2018		Debit	Credit
97X Payables From Forward Contract		₺40,000,000	
97X Receivables From Forward Contract			₺40,000,000
<i>Recording forward contract</i>			

Recognition of exchange differences on 31<sup>st</sup> of December 2018:

$$\$10,000,000 \times (\text{₺}4.10 - \text{₺}4.00) = \text{₺}1,000,000$$

12.31.2018		Debit	Credit
11X Financial Investments		₺1,000,000	
11X.XX Derivative Financial Instruments (Forward Contract)			
5XX Hedging Reserve			₺1,000,000
5XX.XX Derivative Financial Instruments Valuation Difference			
<i>Exchange differences</i>			

### 5.7. Termination Pay Provisions

The YK Inc. calculated termination pay for its 210 employees as of 31<sup>st</sup> of December 2018. Average seniority period of the employees are 10 years and the average wage of the employees is ₺4,550. Termination pay provisions are calculated as follows:

$$\text{Provision of termination payment} = 210 \times 10 \times \text{₺}4,550 = \text{₺}9,555,000$$

#### 5.7.1. According to BOBI FRS

By the end of the reporting period, benefit obligations are estimated. Increasing benefit obligations in the current period are calculated and expensed. Considering benefit obligations

such as labor turnover and termination pay realized in previous years, benefit obligations of employees are calculated on the seniority fee of the related period.

**5.7.2. According to MSUGT/VUK**

According to VUK, termination pay provisions are considered as expense only when paid to the employee who left the job. Thus, termination pay provision is not accrued as an expense in the period which they are calculated. Moreover, it is voluntary to demonstrate termination pay provisions in the balance sheets. Because of the fact that it is voluntary, almost all of the non-public companies do not include Termination Pay Provisions in their balance sheet as a liability item. Whereas, this item is quite material liability, which must be presented for users of financial statements.

**5.8. Revaluation Fund of Fixed Assets**

The YK Inc. has valued its tangible-fixed assets by fixed asset revaluation model. It has valued its fixed assets which its book value is ₺1,100,000 as of 31st of December 2018. Thus valuation increase is ₺500,000.

**5.8.1. According to BOBI FRS**

In the BOBI FRS, the cost model or fixed asset revaluation model are optional to apply in the subsequent measurement of tangible fixed assets. According to the fixed asset revaluation model, tangible fixed assets are shown over their revalued amounts in the financial statements. If an increase in value as a result of the fixed asset revaluation is determined, this increase is shown in “Revaluation Reserve” in the financial statements.

**Table 9.** The YK Inc. Statement of Financial Position as at 31 December, 2018 (BOBI FRS)

Assets	Balance Sheet	Liabilities and Equity
<b>I. Current Assets</b>	<b>II. Current Liabilities (Short-Term)</b>	₺10,096,840
	A. Trade Payables	₺96,840
	-324 Deferred Overdue Expense	₺96,840
	<b>IV. Non-Current Liabilities</b>	₺16,318,849.40
	A. Financial Liabilities	₺2,997,766.40
	-400 Bank Loans	₺2,040,000.00
	-405 Bonds Issued	₺957,766.40
	B. Trade Payables	₺3,766,083
	-420 Accounts Payable	₺466,083
	-421 Notes Payable	₺3,300,000
	C. Provisions for Debt and Expenses	₺9,555,000
	472 Provision for Employment termination Pay	₺9,555,000
<b>II. Non-Current Assets</b>	<b>V. Equity</b>	₺28,600,000
	A. Paid – In Capital	₺5,000,000
	-500 Share Capital	₺10,000,000
	-501 Unpaid Capital (-)	(₺5,000,000)

B. Capital Reserves	₺8,000,000
-520 Additional Paid-in Capital	₺7,5000.000
-522 Revaluation Fund of Fixed Assets	₺500,000
C. Profit Reserves	₺600,000
-540 Legal Reserves	₺350,000
-541 Statutory Reserves	₺250,000
D. Period Net Income	₺14,000,000
E. Hedging Reserve	₺1,000,000
<b>Total Assets</b>	<b>₺55,015,689.40</b>
<b>Total Liabilities and Equity</b>	<b>₺55,015,689.40</b>

Table 10. The YK Inc. Balance Sheet December 31, 2018 (MUSGT/VUK)

Assets	Balance Sheet	Liabilities and Equity
<b>I. Current Assets</b>	<b>II. Current Liabilities (Short-Term)</b>	₺10,400,000
	A. Financial Liabilities	₺300,000
	-304 Current Portion of Bonds Payable	₺300,000
	B. Revenues Received in Advance and Accrued Expenses	₺100,000
	-381 Accrued Expenses of the Coming Months	₺100,000
	<b>IV. Non-Current Liabilities</b>	₺7,000,000
	A. Financial Liabilities	₺2,750,000
	-405 Bonds Issued	₺200,000
	B. Trade Payables	₺4,250,000
	-420 Accounts Payable	₺500,000
<b>II. Non-Current Assets</b>	<b>V. Equity</b>	₺27,100,000
	A. Paid – In Capital	₺5,000,000
	-500 Share Capital	₺10,000,000
	-501 Unpaid Capital (-)	(₺5,000,000)
	B. Capital Reserves	₺7,500,000
	-520 Additional Paid-in Capital	₺7,5000.000
	C. Profit Reserves	₺600,000
	-540 Legal Reserves	₺350,000
	-541 Statutory Reserves	₺250,000
	D. Period Net Income	₺14,000,000
<b>Total Assets</b>	<b>₺44,500,000</b>	<b>Total Liabilities and Equity</b>
		<b>₺44,500,000</b>

Table 11. Financial Ratio Calculation Results

Variable	BOBI FRS	Ratio	MSUGT/VUK	Ratio
<b>Debt Ratio</b>	₺26,415,689.40 / ₺55,015,689.40	0.4801	₺17,400,000 / ₺44,500,000	0.3910
<b>Shareholder Equity Ratio</b>	₺28,600,000 / ₺55,015,689.40	0.5198	₺27,110,000 / ₺44,500,000	0.6089
<b>Debt to Equity Ratio</b>	₺26,415,689.40 / ₺28,600,000	0.9236	₺17,400,000 / ₺27,110,000	0.6420
<b>Short-term debt to Total</b>	₺10,096,840 /	0.1835	₺10,400,000 /	0.2337

Assets	₺55,015,689.40		₺44,500,000	
Long-term debt to Total Assets	₺16,318,849.40 / ₺55,015,689.40	0.2966	₺7,000,000/ ₺44,500,000	0.1573

## 6. CONCLUSION

Especially because of employment termination provision, long term liabilities found as per BOBI FRS are higher than liabilities found as per tax legislation. Thus debt ratio is calculated higher as per BOBI FRS.

Shareholder equity found as per BOBI FRS is higher than shareholder equity found as per tax legislation because of revaluation of fixed assets and hedging reserve calculation.

Total assets found as per BOBI FRS are higher than total assets found as per tax legislation because of revaluation of fixed assets.

As seen from the results of analyses, short term liabilities do not exceed tax legislation-oriented amount because of the fact that financial liabilities with maturities of one year or less are valued with nominal (face) value.

As seen from the results of the analyses in the case study, there are quite significant differences between the data prepared as per two different applications. It is obvious that BOBI FRS based statement of financial position presents liabilities and equity in more realistic approach. In this context we conclude that:

When analyzing enterprises' financial statements for decision making purposes, it would be quite reasonable and logical choice for stakeholders to prefer statement of financial position prepared as per the BOBI FRS rather than balance sheet prepared as per the tax legislation.

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