REPUBLIC OF TURKEY
KGK
Public Oversight Authority

FINANCIAL REPORTING STANDARD

For Large and Medium Size Entities

2019

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Contents

SECTION 1
CONCEPTUAL FRAMEWORK AND FINANCIAL STATEMENTS

1.1 This section establishes the principles for preparation and presentation of financial statements to ensure **fair** presentation of entities' **financial statement**s. In this scope, overall requirements for the presentation of financial statements, necessary features that provided information through financial statements and the minimum content of financial statements are explained.

General Requirements for Financial Statements

1.2 The objective of financial statements is to present financial information about the financial position, performance and cash flows of an entity that is useful in the decisions of the related parties. Financial statements also provide the information that how management use business resources.

1.3 Financial statements, as minimum, comprises the following:

a) **A Statement of Financial Position,**
b) **A Statement of Profit or Loss,**
c) **A Statement of Cash Flows,**
d) **A Statement of Changes in Equity and**
e) **Notes**, comprising significant **accounting policies** and other explanatory information.

1.4 Financial statements are prepared clearly and understandably in accordance with requirements in this Standard. It is clearly stated in the notes that financial statements are completely compatible with the requirements in this Standard.

1.5 Financial statements shall be presented to reflect fairly the assets, liabilities, equity, performance and cash flows of an entity. When it is considered that the application of requirements in this Standard is not sufficient in terms of achieving a faithful representation, additional information that necessary to achieve this objective is disclosed in the financial statement notes.

1.6 It is assumed that faithful representation is achieved when entity presents its financial statements in accordance with the requirements of this Standard and, where appropriate, additional disclosures. However, in the extremely rare circumstances when management concludes that application of any requirements of this Standard would be so misleading that it would conflict with the objective of fair presentation, that requirement shall not be apply. In this case, it shall disclose the following:

a) Not applicable requirement,

b) The reason of not applying the requirement,

c) The nature of the treatment adopted instead of not applicable requirement, and its effect of entity's assets, liabilities, financial position and performance,

d) That it has complied with other the requirements in this Standard except for the not applicable requirement.

Characteristics of Useful Financial Information

1.7 Characteristics of useful financial information are **relevance**, faithfull represantation, **understandability**, comparability and **timeliness**. Relevance and fair presentation are fundamental qualitative characteristics while understandability, comparability and timeliness are enhancing qualitative characteristics

Relevance

1.8 The information presented in financial statements must be sufficient to meet to decision-making needs of users. It is considered that financial information has the quality of relevance when it is capable of influencing the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

1.9 Information is material if its omission or misstatement is expected to effect the economic decisions of users made on the basis of the financial statements. In determining whether the information is material the size of related item as well as nature of the related item must be considered. **Materiality** is not assess as a separate characteristic because it is an entity-specific aspect of relevance.

Faithful Representation

1.10 Financial information must faithful represent relevant economic phenomena that it aim to disclose. Faithful representation is the presentation of the effects of transactions and events in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses. In order to faithful representation perfectly, the information must be complete, neutral and free from error, it must also reflect the substance of transactions and events and not only its legal form.

Understandability

1.11 Financial information should be presented comprehensibly by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.

Comparability

1.12 Comparability enables users to identify and understand similarities in, and differences among, items. Hence, the measurement and presentation of the financial effects of similar transactions and events must be consistent with periods and the measurement and presentation of the other entities. To provide comparability, users must be informed of the accounting policies employed in the preparation of the financial statements and of any changes in those policies and the effects of such changes.

Timeliness

1.13 Timeliness is that having financial information available to decision-makers in time to be capable of influencing their decisions.

The Principles of General Financial Reporting

Going Concern

1.14 The management of an entity shall assess of the entity's ability to continue in operation while preparing the financial statements. Financial statements are prepared on assumption that **going concern,** in case where management has neither the intention nor the need to enter liquidation or to cease trading. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least twelve months from the end of the **reporting period**. When management is determined, in making its assessment, of material uncertainties related to conditions that cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed in notes.

1.15 If management either intends or obligates to liquidate the entity or to cease operation, the financial statements is prepared on a different basis. In this case, it shall disclose that fact the assumption of going concern is not used, using the basis on which it prepared the financial statements and the reason why the assumption of going concern is not valid.

Accrual basis

1.16 All financial statements, except for cash flow shall be prepared on **accrual basis.** Accrual basis is required to, regardless of the period that **cash** inflows and outflows occur, be presented the transactions and events in the financial statements when they affect the entity's economic assets and liabilities.

Prudence

1.17 Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow the deliberate understatement of assets or income or the deliberate overstatement of liabilities or expenses. Prudence must not hinder faithful representation.

1.18 Especially as the necessity of a prudent attitude,

a) Only the profit generated by the end of the period is recognised in the financial statements,

b) All liabilities related to the reporting period or belong to the previous reporting period are recognised in the financial statements even if they become apparent between the end of the period and the regulating date of the statement of financial position,

c) All negative value adjustments are recognised in the financial statements regardless of making profit or loss in the reporting period.

Materiality in the Presentation of Financial Statements

1.19 Each material account class of item that is generated by transactions and events of a similar nature or function are aggregated, is presented separately in the financial statements. Whether an individual financial statement item is material or not is determined by comparison with other similar items.

1.20 If a line item is not individually material, it may be aggregated with other similar items either in those financial statements or in the notes. However, an item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.

Offsetting

1.21 Assets and liabilities, or income and expenses shall not be offset unless required or permitted by this Standard.

Frequency of reporting

1.22 Financial statements shall be presented at least annually. When the end of an entity's reporting period changes and the annual financial statements are presented for a period longer or shorter than one year, the entity shall disclose the following:

a) The reporting period of the entity has changed,
b) The reason for using a longer or shorter period and
c) The amounts presented in the financial statements (including the related notes) are not entirely comparable.

Comparative Information

1.23 Unless there is a requirement to the contrary, all amounts presented in financial statements of the current period shall be presented comparatively with the amounts for previous period. Comparative information is also provided for narrative information in the notes when it is necessary to an understanding of the current period's financial statements.

1.24 In terms of comparative presentation, the statement of financial position, the statement of profit or loss, the statement of cash flows, the statement of changes in equity and related notes shall be presented to include at least two reporting periods.

1.25 If the current period amounts are not comparable with the previous period amounts, this case is disclosed with the reasons.

Consistency of Presentation

1.26 The presentation and classification of items in the financial statements shall not be changed as of period. However, this principle may not be applied in exceptional circumstances to provide fair presentation of the entity's assets, liabilities, equity, performance and cash flows. Deviation from this principle is disclosed with the reasons.

The Information That is Required to be Included in The Financial Statements

1.27 The financial statements and the notes shall be presented that clearly distinguishable from the document which they are published together, if any.

1.28 Following information is clearly stated and repeat it when necessary for an understanding of the information presented:

a) The name of the reporting entity and any change in its name since the previous reporting period,
b) Whether the financial statements are the individual financial statements or the **consolidated financial statement**s,
c) The date of the end of the reporting period and the period covered by the financial statements,
d) The currency in which the financial statements are presented and
e) The level of rounding, if any, used in presenting amounts in the financial statements.

Statement of Financial Position

1.29 Statement of financial position is a statement that is prepared to inform of an entity's financial position and presents the entity's assets, liabilities and equity as of a specific date.

The Elements of Statement Of Financial Position

1.30 The elements of statement of financial position are assets, liabilities and equity

1.31 Assets are a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

1.32 Liabilities are a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

1.33 The definitions in paragraphs 1.31 and 1.32 identify their essential features, they do not specify the basic criteria that need to be met before they are recognised in the statement of financial position. Thus, the definitions embrace assets and liabilities that are not recognised in the statement of financial position because they do not satisfy the criteria for recognition. An item that meets the definition of asset and liability is recognised only if:

a) It is probable that any future economic benefit associated with the item will flow to or from the entity and
b) The item has a cost or value that can be measured reliably.

1.34 This Standard specifies basis of measurement for many assets and liabilities. Assets and liabilities are measured at their cost (historical cost) at initial recognition unless this Standard specifies another measurement basis such as **fair value.**

1.35 For assets, cost is the amount of cash or **cash equivalents** paid or the value of non-cash assets of the consideration given to acquire the asset at the time of its acquisition. For liabilities, cost is the amount of proceeds of cash or cash equivalents received or the fair value of non-cash assets received in exchange for the obligation at the time the obligation is incurred, or in some circumstances the amounts of cash or cash equivalents expected to be paid to settle the liability in the normal **course of business**.

1.36 In this Standard, fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.37 Equity is the residual interest in the assets of the entity after deducting all its liabilities.

The Presentation of Statement of Financial Position

1.38 The statement of financial position is presented by making current/non-current distinction. The statement of financial position is properly prepared by entities which preparing the non-consolidated financial statements in accordance with the example in Appendix 1, by entities which preparing the consolidated financial statements in accordance with the example in Appendix 5. Items that current and compared period balances are zero may not be recognised in the financial statements.

1.39 Provided that the example in Appendix 1 or Appendix 5 is adhered to, sub-items, subtotals and additional items that are thought to be brought to the attention of users of financial statements may be recognised.

1.40 If an asset and a liability is related to more than one item in the Statement of Financial Position, the relation between the asset or liability and other items is disclosed.

1.41 Current and non-current assets and current and non-current liabilities, shall be presented as separate classifications in its Statement of Financial Position. An entity shall classify an asset as current when:

a) It expects to realise the asset, or intends to sell or consume it, in the entity's normal operating cycle,

b) It holds the asset primarily for the purpose of trading,

c) It expects to realise the asset within twelve months after the reporting period or

d) The asset is cash or a cash equivalent (unless it is restricted from being exchanged or used to settle a liability for twelve months after the reporting period).

1.42 All other assets that do not carry the characteristics in paragraph 1.41 are classified as non-current in respect of related items. Non-current assets comprise long-term tangible, intangible and financial assets.

1.43 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is treated as twelve months.

1.44 An entity shall classify a liability as current when:

a) It expects to settle the liability in the entity's normal operating cycle,

b) It holds the liability primarily for the purpose of trading,

c) The liability is due to be settled within twelve months after the reporting period or

d) There is no an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

1.45 An entity shall classify all other liabilities as non-current.

Statement of Profit or Loss

1.46 Statement of profit or loss is a statement that is prepared to inform of an entity's financial performance and presents the entity's income and expenses related to the reporting period and their net result.

The Elements of Statement of Profit or Loss

1.47 The elements of statement of profit or loss are income and expenses.

1.48 Income is, except for contributions from owners, increases in equity during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities.

1.49 Expense is, except for distributions to owners, decreases in equity during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities.

1.50 The definitions in paragraphs 1.48 and 1.49 identify their essential features, they do not specify the basic criteria that need to be met before they are recognised in the statement of profit or loss. Thus, the definitions embrace income and expenses that are not recognised in the statement of profit or loss because they do not satisfy the criteria for recognition. An item that meets the definition of income and expense is recognised only if:

a) It is probable that any future economic benefit associated with the item will flow to or from the entity and

b) The item has a cost or value that can be measured reliably.

The Presentation of Statement of Profit or Loss

1.51 The statement of profit or loss is properly prepared by entities which preparing the non-consolidated financial statements in accordance with the example in Appendix 2, by entities which preparing the consolidated financial statements in accordance with the example in Appendix 6. Items that current and compared period balances are zero may not be recognised in the financial statements.

1.52 Provided that the example in Appendix 2 or Appendix 6 is adhered to, sub-items, subtotals and additional items that are thought to be brought to the attention of users of financial statements may be recognised.

Statement of Changes in Equity

1.53 Statement of Changes in Equity is a statement that presents as a whole increases or decreases in the items of equity in the Statement of Financial Position.

1.54 One each column for the items of equity in the Statement of Financial Position is opened in the Statement of Changes in Equity and each of these items' the opening balance, increases or decreases in these items in the period and balance at end of year are followed in this column. These matters which cause increases or decreases in the items of equity are presented in the lines of the Statement of Changes in Equity.

1.55 Increases and decreases in the items of equity arising from as a minimum following matters are required to be presented separately in the Statement of Changes in Equity:

a) The adjustments for changes in accounting policies,

b) The adjustments for misstatements,

c) Distributed dividends,

d) Profit or loss for the period (If prepared financial statements are consolidated financial statements and non-controlling interests are set, the amount of profit or loss corresponding to non-controlling interests is also presented),

e) The amounts transferred to reserves from profit,

f) Capital increases or decreases,

g) The premiums that emerge in the period for shares,

h) Changes in the current period due to the revaluation of **property, plant and equipment**,

i) Foreign exchange translation differences that emerge in the period,

j) Changes in the hedging reserve in the period in case of application of the hedge accounting,

k) The interests from gains or losses of **subsidiaries, associates and joint ventures** accounted in equity in the current period in case of using of the equity method,

l) Changes due to the amounts transferred to retained earnings / losses from gains or losses accounted in equity (for example, “Revaluation Reserve”, “Foreign Exchange Translation Differences” and “Hedging Reserve” items),

m) Changes due to interests buy-back transactions,

n) To be presented only in the consolidated statements; changes due to disposal of interests in subsidiary that do not result in a loss of control or increasing of interests in subsidiary.

1.56 The statement of changes in equity is properly prepared by entities which preparing the non-consolidated financial statements in accordance with the example in Appendix 3, by entities which preparing the consolidated financial statements in accordance with the example in Appendix 7. It is possible for entities prepare statement of changes in equity in detail they want providing that they conform to formal structure contained in the examples.

Statement of Cash Flows

1.57 The Statement of Cash Flows is prepared in accordance with the requirements in section the "*Statement of Cash Flows*".

SECTION 2
STATEMENT OF CASH FLOWS

2.1 This section establishes the information that is to be presented in a **Statement of Cash Flows** and how to present it. The Statement of Cash Fows is the statement which shows inflows and outflows of **cash and cash equivalent**s, their resources and places of use for a **reporting period**. Inflows and outflows of cash and cash equivalents are showed separately in respect of **operating activities, investing activities** and **financing activities** in the statement of cash flows.

2.2 The Statement of Cash Fows is properly prepared by entities which preparing non- consolidated financial statements in accordance with the example in Appendix 4, by entities which preparing **consolidated** financial statements in accordance with the example in Appendix 8. It is possible for entities prepare statement of cash flows in any detail provided that they conform to thr formal structure in the examples.

The Concepts of Cash And Cash Equivalents

2.3 Cash comprises cash on hand and demand deposits.

2.4 Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. They are held to meet short-term cash commitments instead of for investment or other purposes. An investment normally qualifies as a cash equivalent only when it has a short maturity (for example, three months or less from the date of acquisition). However, **equity instruments** can not be normally considered as cash equivalent.

2.5 Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

2.6 Cash flows comprises inflows and outflows of cash and cash equivalents. However, cash flows exclude movements between cash or cash equivalents.

Presentation of a Statement of Sash Flows

2.7 A statement of cash flows that presents cash flows for a reporting period shall be presented that classified by operating activities, investing activities and financing activities.

Cash Flows Arising From Operating Activities

2.8 Operating activities are the principal **revenue**-producing activities of the entity. Operating activity is also other activities that are not investing or financing activities. Cash flows from operating activities generally result from the transactions and events that are reflected their effects in profit or loss.

2.9 An entity shall report cash flows from operating activities using either the direct method or the indirect method.

2.10 Under the direct method, gross cash inflows and gross cash outflows shall be presented separately classified by major groups

2.11 Under the direct method, cash inflows arising from operating activities may be shown by grouping the providing from inflows of sale of goods, the rendering of services, dealing activities, other operating activities and etc.. In calculating such cash inflows, decreases in receivables from related operating activities are added to the amount of net revenue providing from these activities, increases are deducted from this amount.

2.12 Under the direct method, cash outflows arising from operating activities may be shown by grouping related to outflows of costs of goods sold, the costs of services, operating **expenses** and etc. In calculating such cash outflows may be based on the cost of sales and related other items. Increases in **inventories**, decreases in liabilities arising from purchasing should be added to amounts related to these items; costs do not require cash outflows such as **depreciation** charges and accrued but unpaid expenses, increases in liabilities arising from purchasing, decreases in inventories should be deducted from these amounts.

2.13 Under the indirect method, showing of cash flows arising from operating activities are started from profit before tax, in other words Profit or Loss for the Period item. Then, Profit or Loss for the Period item is adjusted for the effects of:

a) Non-cash items such as depreciation, **provision**s, **deferred tax**es, accrued **income**s (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, accrued parts in the period of expenses paid in cash, entity's interests from undistributed profits of **associate**s accounted for using the equity method)

b) Changes during the period in inventories and operating receivables and payables and

c) Items for which the cash effects are investing or financing cash flow.

Cash Flows From Investing and Financing Activities

2.14 Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as cash outflow from investing activities.

2.15 Financing activities are activities that result in changes in the size and composition of the contributed **equity** and **liability** of an entity.

2.16 Inflows and gross cash outflows arising from investing and financing activities shall be presented separately classified by major groups.

Cash Flows Relating to Foreign Currency Transactions

2.17 An entity shall record cash flows arising from transactions in a foreign currency in the entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

2.18 The parents which preparing consolidated financial statements, when they prepare statement of cash flows, they translate the cash flows of foreign subsidiaries to their functional currency at the exchange rates between the functional currency and the foreign currency at the date of the cash flow.

2.19 For practical reasons, a rate that average the exchange rates at the date of the cash flows (for example an average rate for week or month) may be used in translation procedures. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

2.20 The amounts of gains and losses arising from valuation due to changes in foreign currency exchange rates are not cash flows because they do not cause cash movements. However, to reconcile cash and cash equivalents at the beginning and the end of the period, the effect of exchange rate changes on cash and cash equivalents held or due or collected in a foreign currency must be presented in the statement of cash flows. Therefore, cash and cash equivalents shall be remeasured at period-end exchange rate.

The gains and losses arising from valuation determined in this way shall be shown separately from cash flows from operating, investing and financing activities in "The Effect of Exchange Differences on Cash and Cash Equivalents" item.

Interest and Dividend

2.21 Interests and dividends received and paid shall be presented separately in the Statement of Cash Flows. Each of these items shall be classified consistently as of periods as cash flows from operating, investing or financing activities.

2.22 Interest and dividends received and paid may be classified as operating cash flows. Alternatively, interest and dividends received may be classified as investing cash flows, interest and dividends paid may be classified as financing cash flows.

Taxes

2.23 Cash flows relating to taxes shall be classified as cash flows from operating activities unless they can be obviously identified with financing and investing activities. Cash flows arising from taxes on income shall be presented in the statement of cash flows under "Tax payments/refunds" item, other taxes (indirect taxes such as Value Added Taxes) shall be presented in "Other cash inflow/outflow" item.

Investments in Subsidiaries, Associates and Joint Ventures

2.24 When subsidiaries, associates and joint ventures are accounted for by use of the equity or cost method, an entity shall be presented only cash flows due to investments or disposals and the cash flows due to transactions between itself and these investments (such as dividend collections and advances).

2.25 Cash flows arising from acquisition of subsidiary, associate and joint venture investments, getting additional interests of these investments, the partial or total disposal of interests in these investments shall be classified as investing cash flows. However, the parents which preparing consolidated financial statements show disposals of some part of interests in subsidiaries that do not result in a loss of **control** or acquisition of subsidiaries' additional interests in consolidated the statements of cash flow as financing cash flows.

2.26 Cash flows arising from acquisition of investments in subsidiaries, associates and joint ventures, getting additional interests of these investments, the partial or total disposal of interests in these investments shall be presented separately in the Statement of Cash Flows.

SECTION 3
ACCOUNTING POLICIES, ESTIMATES AND ERRORS

3.1 This section establishes the principles for selecting, applying and changing of the **accounting policies** and requirements related to **changes in accounting estimates** and corrections of errors.

Selection and Application of Accounting Policies

3.2 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. Measurement and classification bases of financial statements items, depreciation methods and techniques for measuring cost of inventories can be given as examples of accounting policies.

3.3 If there is an accounting policy specified in this Standard for any transaction or event, this accounting policy shall be applied. If this Standard allows a choice of accounting policies for a specified transaction or other event (e.g. allowance of measurement of property, plant and equipment by cost amount or by revalued amount), an entity shall choose the most appropriate accounting policy to its condition for providing a fair presentation by taking characteristics of useful financial information set out in the section "*Conceptual Framework and Financial Statements*" into account.

3.4 If this Standard does not specifically address a transaction, other event or condition, an entity's management shall use its judgement in developing and applying an accounting policy. In this case, an entity shall assess the accounting policy which has the characteristics of useful financial information, set out in the section "*Conceptual Framework and Financial Statements*", and the most appropriate one to its conditions

3.5 The entity, when determining accounting policy at its discretion in accordance with paragraph 3.4, shall consider the applicability of the following resources, respectively,:

a) The requirements in this Standard dealing with similar and related issues; an

b) The definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in section "*Conceptual Framework and Financial Statements*".

3.6 The entity, when determining accounting policy at its discretion in accordance with paragraph 3.4, may also consider the requirements and guidance in TFRS[1] dealing with similar and related issues.

3.7 The accounting policies selected and applied by the entity for similar transactions and events should be consistent. Applied accounting policies shall also be consistent in terms of periods.

Changes in Accounting Policies

3.8 Entities shall review regularly whether the applied accounting policies in financial statements for providing a fair presentation are the most appropriate to its conditions or not. Entities shall change an accounting policy if the change results in the financial statements, transactions and other events providing reliable and more relevant information about their effects on financial positions or operating results. However, consistency and comparability shall also be a priority while assessing whether a new policy is more appropriate than the current policy. If a change is made in the accounting policy, the change in shall be applied retrospectively.

3.9 However; as a result of the change in accounting policy, a class of property, plant and equipment measured at its cost to be started measure revaluation model, this change in accounting policy shall not be accounted retrospectively. In this case related properties, plants and equipment shall be measured by revalued amount from the date the policy change is made.

3.10 Due to an amendment to this Standard, it may be necessary to make a change in the accounting policy. In this case, these requirements shall be applied if there are requirements on how to account for policy change. If there is no requirement, the change in policy shall be applied retrospectively.

[1] TFRS refers to standards which are issued by Public Oversight, Accounting and Auditing Standards Authority of Turkey with the name of Turkish Accounting Standards, Turkish Financial Reporting Standards, Turkish Accounting Standards Interpretations and Turkish Financial Reporting Standards Interpretations.

Retrospective Application

3.11 Retrospective application is applying a new accounting policy to transactions and events as if that policy had always been applied. In accordance with this, when a change in accounting policy is applied retrospectively, the affected item(s) from the changes in the financial statements presented comparatively of the period(s) shall be adjusted according to the new accounting policy. In addition, the opening balance of each component of **equity**, affected from the change in the earliest prior period presented comparatively shall be adjusted according to the cumulative effect of the change to the periods before the earliest prior period presented comparatively.

> **Example 1:**
> 20X9 year reporting period, an entity has started to measure the investment property at the fair value, which was measured at the cost price before, by going through the accounting policy change, considering that it will provide more reliable and more relevant information. The entity presents comparative information for the past two years when presenting its financial statements. The cumulative effect of the change in the accounting policy on "Accumulated Profit or Loss" on 1/1/20X9 is the increase of this amount by TL 100.000. As a result of the change in accounting policy, the entity has determined that the profit amounts for the past four years should be increased by 25.000 TL per year. Accordingly, the items "Capital Appreciation and Earnings from Sale of Investment Property" and "Investment Property" item in Financial Statement in the reporting periods ending on 31/12/20X8 and 31/12/20X7 are increased by 25.000 TL. In addition, the opening balance of the equity items that are affected from the related change presented comparatively at the reporting period ending 31/12/20X7, which is the earliest period, is restated. Accordingly, the amount of "Accumulated Profit or Loss" on 1/1 / 20X7 and the amount of "Investment Property" is increased by 50.000 TL.

3.12 When it is impracticable to determine the individual-period effects or cumulative effects of a change in accounting policy despite all effort, there may be exceptions to the retrospective application.

3.13 When it is impracticable to determine the individual-period effects of a change in accounting policy on comparative information for one or more prior periods presented, the new accounting policy shall be apply to the opening balances of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be current period. In addition, the opening balance of each affected component of equity for that period shall be adjustment.

> **Example 2:**

In accordance with Example 1, if it is impracticable to determine the period-specific effects of change in the accounting policy for periods before 20X8, the entity should reflect the effect of the change in accounting policy as follows: The opening balance of the "Investment Property" item and the "Accumulated Profit or Loss" item for the reporting period ending on 31/12/20X8, the earliest possible period of the retrospective application, shall be corrected. Accordingly, the amount of the "Investment Property" item on 1/1/20X8 and the amount of "Accumulated Profit or Loss" item should be increased by 75.000 TL. In addition, "Capital Appreciation and Earnings from Sale of Investment Property" in the Statement of Profit or Loss for the reporting period ending on 31/12/20X8.

3.14 When it is impracticable to determine the cumulative effect that will arise at the beginning of the current period as a result of the of applying the new accounting policy retrospectively all prior periods, the relevant change is applied **prospectively** from the start of the earliest period practicable. Therefore, the new accounting policy is applied for transactions and events which occur after this date. In this case, it disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date.

Example 3:
Unlike the Example 2, the cumulative effect of the change in accounting policy on "Accumulated Profit or Loss" cannot be determined by the entity. Along with that, the entity has determined that the profit amount for the previous year should be increased by 25.000 TL. In this framework, "Value Increase and Sale Earnings of Investment Property" item in the Statement of Profit or Loss for the reporting period ending on 31.12.20X8 and the amount of "Investment Property" item in the Statement of Financial Position are increased by 25.000 TL.

Disclosure of a Change in Accounting Policy

3.15 When a change in accounting policy has an effect on the current period or prior periods, an entity shall disclose the following:

a) The nature of the change in accounting policy.

b) The reasons why applying the new accounting policy provides reliable and more relevant information;

c) The amount of the adjustment for each financial statement line item affected as of following periods (to the extent practicable):

(i) For the current period;

(ii) For each prior period presented comparatively; and

(iii) For periods prior to period(s) presented comparatively (cumulative amount);

d) An explanation if it is impracticable to determine the amounts to be disclosed in (c).

Financial statements of subsequent periods need not repeat these disclosures.

Changes in Accounting Estimates

3.16 As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of bad debts, inventory **obsolescence**, the **fair value** of **financial assets** or **financial liabilities**, the **useful lives** of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets and warranty obligations.

3.17 A change in accounting estimate is an adjustment of the **carrying amount** of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

3.18 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

3.19 A change in the measurement basis applied (for example; a change from the revaluation model to the cost model for a class of property, plant and equipment) is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

3.20 The effect of a change in an accounting estimate shall be recognised, other than a change to which paragraph 3.21 applies, prospectively by including it in profit or loss in:

a) The period of the change, if the change affects that period only; or

b) The period of the change and future periods, if the change affects both .

3.21 If the change in an accounting estimate result in changes in assets and liabilities, or relates to an item of equity, such change shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

3.22 The nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the **current reporting** period shall be disclosed.

Errors

3.23 Errors arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with this Standard if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or **cash flows**.

3.24 Errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud.

3.25 Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, errors are sometimes not discovered in current period; these are described as **prior period errors**.

3.26 Prior period errors are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: was available when financial statements for those periods were authorised for issue by governing body; and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

3.27 Material prior period errors shall be corrected retrospectively. Therefore; The correction of a prior period error is excluded from profit or loss for the period in which the error is discovered.

Retrospective Restatement

3.28 Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred. Therefore; retrospectively restatement of material prior period errors is carried out as follows:

a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; or

b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity which are affected directly or indirect by the errors for the earliest prior period presented.

Example 4:
In 20X9, the entity determined that depreciations for property, plant and equipment was calculated less over the past four years due to a systematic error. Cumulative effect of the error on "Accumulated Profit or Loss" item on 1/1/20X9 (at the beginning of the current reporting period) is a reduction of this amount by 100.000 TL. As a result of this error, the entity determined that the profit amounts for the past four years should be reduced by 25.000 TL per year. The entity presents comparable information for the past two years when presenting its financial statements. Accordingly, the amount of items for which depreciation expenses are recorded in the Statement of Profit or Loss for comparative reporting periods ending on 31/12/20X8 and 31/12/20X7 shall be increased by 25.000 TL and "Property, plant and equipment" items in the Statement of Financial Position shall be reduced by 25.000 TL. In addition, the opening balances of assets, liabilities and equity items that are directly or indirectly affected by the error related to the reporting period ending on 31/12/20X7, which is the earliest period to comparatively present, are restated. Accordingly, the amount of Accumulated Profit or Loss on 1/1/20X7 and the amount of the "Property, Plant and Equipment" item is reduced by 50.000 TL. In addition, necessary corrections are made in other equity items that are directly or indirectly affected by error.

3.29 When it is impracticable to determine the individual-period effects or cumulative effects of a material prior period despite all effort, there may be exceptions to the retrospective application.

3.30 When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period)shall be restated.

Example 5:

According to Example 4, if the effects on the period by period basis for the periods before 20X8 cannot be determined, the opening balance of the "Property, Plant and Equipment" item and the "Accumulated Profit or Loss" item for the reporting period ending on 31/12/20X8, the earliest possible period of the retrospective adjustment, shall be corrected. Accordingly, the amounts of "Property, plant and equipment" item on 1/1/20X8 and the "Accumulated Profit or Loss" item should be reduced by 75.000 TL. In addition, the amount of the item where depreciation expense in the Statement of Profit or Loss for the reporting period ending on 31/12/20X8 is increased by 25.000 TL and the amount of the "Property, plant and equipment" in the Statement of Financial Position is decreased by 25.000 TL.

3.31 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable. Therefore, it disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date.

Example 6:
Unlike Example 5, the cumulative effect of error on the "Accumulated Profit or Loss" item cannot be determined by the entity. Along with that, the entity has determined that the profit amount for the previous year should be reduced by 25.000 TL. In this framework, the amount of the item where depreciation expenses are recorded in the Profit or Loss Statement for the reporting period ending on 31/12/20X8 is increased by 25.000 TL and the amount of "Property, plant and equipment" in the Statement of Financial Position is decreased by 25.000 TL.

Disclosure of Prior Period Errors

3.32 An entity shall disclose the following about prior period errors:

a) The nature of the prior period error;

b) The amount of the correction for each financial statement line item affected, for each prior period presented comparatively, (to the extent practicable);

c) The amount of the correction at the beginning of the earliest prior period presented)to the extent practicable); and

d) If it is not practicable to determine the amounts to be disclosed in (b) or (c)the reason for this.

Financial statements of subsequent periods need not repeat these disclosures.

Presentation of Additional Statement of Financial Position

3.33 When an accounting policy change is applied retrospectively or an adjustment is made retrospectively in the context of an error correction, an additional **Statement of Financial Position** for the beginning of the earliest comparative period is presented. However, if the effect on the items in the Statement of Financial Position at the beginning of the earliest comparative period presented by the retrospective application or the retrospective adjustment is immaterial, it is not necessary to present an additional Statement of Financial Position.

SECTION 4
EVENTS AFTER THE END OF THE REPORTING PERIOD

4.1 This section describes events after the date of the **Statement of Financial Position** and establishes accounting principles related to those events.

Events After the End of the Reporting Period Defined

4.2 Events after the end of the **reporting period** are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the **financial statements** are authorised for issue by governing body[2]. There are two types of events; adjusting events after the end of the reporting period and non-adjusting events after the end of the reporting period.

Adjusting Events After the End of the Reporting Period

4.3 Adjusting events after the end of the reporting period are the events that provide evidence of conditions that existed at the end of the reporting period.

4.4 The amounts recognised in its financial statements including related disclosures shall be adjusted to reflect adjusting events after the end of the reporting period. Also, necessary adjustments shall be made in related notes, if the adjusting events after the end of the period does not affect the amounts in the financial statements but it requires adjustments in **notes** only.

4.5 The following are examples of adjusting events after the end of the reporting period:

a) The settlement after the end of the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. In this case, the entity recognises a new provision in accordance with section "*Provisions, Contingencies Liabilities and Contingencies Assets*" or adjusts provision amount if previously recognised related to this court case.

b) The receipt of information after the end of the reporting period indicating that an **asset was impaired** at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For

[2] Governing body refers to board of direction in incorporations, executive(s) in limited partnership divided into shares, manager(s) in limited companies and similar bodies in other entities. (Turkish Commercial Code numbered 6202 Article 135/1)

example:

(i) The bankruptcy of a customer that occurs after the end of the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the **carrying amount** of the trade receivable.

(ii) The sale of **inventories** after the end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing impairment at that date.

c) The determination after the end of the reporting period of the cost of assets purchased, or the **proceeds** from assets sold, before the end of the reporting period.

d) The determination after the end of the reporting period of the amount of incentive bonus payments, if the entity had an obligation at the end of the reporting period to make such payments.

e) The discovery of fraud or errors that show that the financial statements are incorrect.

Non-Adjusting Events After the End of the Reporting Period

4.6 Non-adjusting events after the end of the reporting period are events that are indicative of conditions that arose after the end of the reporting period.

4.7 The amounts recognised in its financial statements shall not be adjusted to reflect non-adjusting events after the end of the reporting period.

4.8 The following events that occur after the reporting period but before the financial statements are authorised for issue by governing body are examples of non-adjusting events after the end of the period:

a) A decline in market value of investments.

b) **A contingent asset** at the reporting date becomes receivable as a result of a favourable judgement or settlement of a court case. However, agreement on the amount of receivables that was reached before the reporting date, but was not previously recognised because the amount could not be measured reliably, may constitute an adjusting event.

c) A disposal of a major **subsidiary** or major business combination.

d) Announcement of a plan to discontinue an operation.

e) The destruction of a major production plant by a fire.

f) Announcement, or commencement of the implementation of a major restructuring.

Dividends

4.9 If **dividends** are declared after the reporting period but before the financial statements are authorised for issue by governing body, the dividends are not recognised as a liability at the end of the reporting period. Such dividends are disclosed additionally in the notes.

Going concern

4.10 An entity shall not prepare its financial statements on a going concern basis if going concern assumption is no longer appropriate after the reporting date. In this case, disuse of going concern assumption, which basis is used in preparation of financial statements and why the going concern assumption is inappropriate shall be explained in the notes.

SECTION 5
REVENUE

5.1 This section establishes accounting principles for **revenue** arising from the specific transactions and events, recognition time of revenue and its **measurement** are prescribed.

Scope

5.2 Revenue is the **income** arising in the course of an entity's ordinary activities.

5.3 This section shall be applied in accounting for revenue arising from the following transactions and events:

a) The sale of goods (whether produced by the entity for the purpose of sale or purchased for resale).

b) The rendering of services.

c) **Construction contracts** in which the entity is the contractor.

d) The use by others of entity **assets** yielding **interest, royalties** or **dividends.**

5.4 This section shall not be applied to revenue or other income arising from some transactions and events dealt with in other sections of this Standard. Such revenue or other incomes include following:

a) Revenue or income arising from **leases**, in accordance with the section *"Leases"*;

b) Dividends and other income arising from investments in **associates** or **joint ventures**, in accordance with the section *"Investments in Associates"* and section *"Investments in Joint Ventures"*;

c) Incomes arising from changes in the **fair value** of **financial assets** and **financial liabilities** or their disposal, in accordance with the section *"Financial Instruments and Equity"*;

d) Income arising from changes in the fair value of **investment property** which are measured at the fair value, in accordance with Section *"Investment Property"*;

e) Income arising from initial recognition of **biological assets** and **agricultural produce** and changes in the fair value of biological assets which are measured at fair value, in accordance with the section *"Agriculture"*.

Recognition of Revenue

5.5 The recognition criteria of revenue are that it is **probable** that the economic benefits will flow to the entity and that the benefits can be reliably measured. In this section, it is determined in which cases these criteria are met and therefore when the revenue is recognised.

5.6 The revenue recognition criteria in this section shall be usually apply separately to each transaction. However, the recognition criteria shall be apply separately to the identifiable components of a single transaction when necessary to reflect the substance of the transaction. For example the recognition criteria shall be apply separately to the identifiable components of a single transaction when the selling price of a product includes an identifiable amount for subsequent servicing.

5.7 Conversely, the recognition criteria shall be apply to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, recognition criteria shall be apply two or more transactions together when it sells goods and, at the same time, enters into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction.

Measurement of Revenue

5.8 Revenue shall be measured based on the amount received or receivable, after the sales discounts (cash discount and volume rebate) are deducted within the scope of the agreements between the parties.

5.9 If it is foreseen that the receipts will be collected in one year or shorter period, the revenue shall be measured directly at the amount collected or amount expected to be collected without any distinction of maturity. If it is foreseen that this receipts will be collected in maturity over one year, the revenue shall be measured at cash price of the related goods or service by distinction of maturity. The amount of maturity difference calculated by **effective interest method** in accordance with paragraph 9.14-9.19 of section *"Financial Instruments and Equities"* shall be recognised as an interest expense.

5.10 Revenue shall be included only the gross inflows of economic benefits received and receivable by the entity on its own account. All amounts collected on behalf of third parties are not be considered as revenue. Within this scope, for example value added taxes shall not be recognised as revenue. In an agency relationship, an entity (the agent) shall include in revenue only the amount of its commission.

5.11 If there is a significant risk in the collectability of the consideration determined by the agreement in initial recognition, the amount is adjusted to reflect the risk and the revenue is measured at the adjusted cost. In addition to this, if uncertainties develop afterwards, about the collectability of the amount previously recognised as revenue, then there shall not be an adjustment to the amount of initial recognition. In this case, the amount of receivables recognised for the revenue is subject to the **impairment** test and if any, impairment loss is recorded.

5.12 Revenue does not arise when goods or services are exchanged for goods or services that are of a similar nature and value. Moreover, revenue shall be recognised when goods are sold or services are exchanged for dissimilar goods or services. In that case, the revenue shall be measured at the fair value of the goods or services received. In measurement of revenue, the amounts received (or paid) shall be added (or deduct) to the fair value of goods or services received, if available. If the fair value of goods and services received cannot be measured reliably, then the entity shall measure revenue at the fair value of the goods and services given up. If the fair value of neither the goods or services received nor the goods or services given up can be measured reliably, then the entity shall measure revenue at the **carrying amount** of the goods or services given up.

5.13 In the case of entity granting its customer a loyalty award that the customer may redeem in the future for free or discounted goods or services as part of a sales transaction, the entity shall account for the award credits as a separately identifiable component of the initial sales transaction. The entity shall allocate the fair value of the consideration received or receivable in respect of the initial sale between the award credits and the other components of the sale. The consideration allocated to the award credits shall be measured by reference to their fair value (the amount for which the award credits could be sold separately). The consideration allocated to the award credits shall be recognised as a revenue in the periods during which award credits are used.

Sale of Goods

5.14 Revenue shall be recognised from the sale of goods when all the following conditions are satisfied:

a) The significant risks and rewards of ownership of the goods are transferred to the buyer,
b) The entity does not retain any control over the goods sold. Control of an asset refers to ability to manage its usage and ability to achieve great deal of its all remaining usefulness. Control encompasses the ability to prevent other entities from using, managing and getting benefit from its;
c) The amount of revenue can be measured reliably;
d) It is probable that the economic benefits associated with the transaction will flow to the entity; and
e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

5.15 The assessment of when the significant risks and rewards of ownership has transferred to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. This is the case for most retail sales. In other cases, the transfer of risks and rewards of ownership occurs at a time different from the transfer of legal title or the passing of possession.

5.16 Revenue is not recognised if it retains significant risks and rewards of ownership. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

a) When the entity retains an **obligation** for unsatisfactory performance not covered by normal warranties.

b) When the receipt of the revenue from a particular sale is contingent on the buyer selling the goods. (i.e. consignment sales).

c) When the goods are shipped subject to installation and the installation is a significant part of the contract that has not yet been completed.

d) When the buyer has the right to rescind the purchase for a reason specified in the sales contract, or at the buyer's sole discretion without any reason, and the entity is uncertain about the probability of return.

5.17 If an entity retains only an insignificant risk of ownership, the transaction is a sale and the entity revenue. shall be recognised. For example, revenue shall be recognised when it retains the legal title to the goods solely to protect the collectability of the amount due. Similarly, revenue shall be recognises when it offers a refund if the customer finds the goods faulty or is not satisfied for other reasons, and the entity can estimate the returns reliably. In such cases, the entity recognises a **provision** for returns in accordance with the section "*Provisions, Contingent Liabilities and Contingent Assets* ".

Rendering of Services

5.18 When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue shall be recognised associated with the transaction by reference to the stage of completion of the transaction at the end of the **reporting period**. Recognising revenue by reference to the stage of completion of the transaction is called the **"percentage of completion method"**. In accordance with this method, the revenue shall be reflected to the **financial statements** at the period in which the services are rendered.

5.19 The outcome of a transaction can be estimated reliably and revenue from rendering of service are recognised when all the following conditions are satisfied:

a) The amount of revenue can be measured reliably;

b) It is probable that the economic benefits associated with the transaction will flow to the entity;

c) The stage of completion of the transaction at the end of the reporting period can be measured reliably; and

d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

5.20 When services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other act, recognition of revenue is postpones until the significant act is executed.

5.21 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognises as much as the amount of the **expenses** expected to be recovered. In this case, any profit related to rendering of service does not arise. When the outcome of the transaction involving the rendering of services cannot be estimated reliably and expenses are not expected to be recovered, the revenue shall not be recognised; the expenses continues to be reflected in profit or loss. When uncertainties that prevent measuring reliably disappears (in other words, when the outcome of transactions estimates reliably), the revenue arising from contract shall be reflected to the financial statements in accordance with percentage of completion method, any **retrospectively** statement shall not be applied.

Construction Contracts

5.22 Construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

5.23 In the case where outcome of a construction contract can be estimated reliably, the revenue and costs of the contract are reflected in the profit or loss at the end of the reporting period, taking into account the level of completion of the activity under the contract. Taking into account the completion level of the contract in determining the revenue and costs to be reflected in profit or loss is called the "percentage of completion method". In this method, the revenue, cost and profits of the completed work are reported.

5.24 Reliable estimation of the result requires a reliable estimation of the completion phase, future costs and the collectability of the receipts.

5.25 In the case where outcome of a construction contract cannot be estimated reliably, revenue shall be recognised as much as the amount of expense expected to be recovered. In this case, no profit arises regarding the construction contract concerned.

In cases where the outcome of the construction contract cannot be estimated reliably and expenses are not expected to be recovered, revenue is not recognised, expenses continue to be reflected in the profit or the loss. When the uncertainties that prevent the result from being reliably measured disappear (in other words, when the contract outcome begins to be reliably estimated), the revenue and costs of the contract are reflected in the financial statements according to the level of completion and no adjustment is made retrospectively.

5.26 The requirements of this section are usually applied separately to each construction contract. However, in some circumstances, it is necessary to apply this section to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

5.27 When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when:

a) Deparate proposals have been submitted for each asset;

b) Each asset has been subject to separate negotiation, and the contractor and customer are able to accept or reject that part of the contract relating to each asset;

c) The costs and revenues of each asset can be identified.

5.28 A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when:

a) The group of contracts is negotiated as a single package;

b) The contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin;

c) The contracts are performed concurrently or in a continuous sequence.

Percentage of Completion Method

5.29 Recognising amount of revenue is determined based on percentage of rendering services completion or construction contracts in percentage of completion method. An entity the estimates of total revenue and costs amoun shall be reviewed as the service transaction or construction contract progressesand and are revised when necessary, At the end of each reporting period, the result of multiplying the percentage of completion with the current estimates of the total revenue amount is the cumulative amount of revenue that must be recognised on a transaction or contractual basis at the end of the related reporting period. The amount of revenue to be recognised in the reporting period is determined by subtracting the amount of cumulative revenue from the past periods.

5.30 On account of the fact that the percentage of completion method is applied cumulatively to the current estimates of revenue and costs for each reporting period, the effect of a change in estimates of revenue and costs is recognized as a **change in the accounting estimates** on a **prospectively.**

5.31 The stage of completion of a transaction or contract shall be determined using the method that measures most reliably the work performed. Examples of methods that can be used depending on the configuration of the process for rendering service or the construction contract in determining the completion level are as follows:

a) Ratio of the costs occurred until the related date to total estimated costs.

b) Completion rate that can be determined concretely by the rendering service or contracted business.

5.32 Progress payments and advances received from customers often do not reflect the work performed. Therefore, the level of completion shall not be determined accordingly.

5.33 The entity may have incurred the costs associated with future activities within the scope of rendering service or construction contracts. Such costs (for example, costs related to material purchases or prepayments) shall not be recognised in the profit or loss of the period provided that they are likely to be recoverable, as they are not related to the completed part of the work done. They shall be recognised in item “Prepaid Expenses” in the **Statement of Financial Position.** Where the level of completion is determined by using the ratio of the costs incurred up to the related date to the total costs, such costs shall not be taken into account in the calculation of the costs incurred up to that date. Costs that are not likely to be recovered shall be immediately recognised as expenses.

5.34 If the total contract costs are expected to exceed the total contract revenue in a construction contract or a rendering service, provisions shall be made in accordance with the section *" Provisions, Contingent Liabilities and Contingent Assets"* as much as the expected amount of loss to be incurred for completion of the rest of the contract.

5.35 The amount resulting from deducting the costs incurred for the construction contracts and the profit or loss reflected in the profit (or loss) total is recognised in the "Receivables from Agreement for the Construction of Real Estate" or "Payables from Agreement for the Construction of Real Estate " item, depending on whether it is positive or negative and these amounts are also presented in the **notes** for each construction contract. These receivables and liabilities shall not be measured at **amortised value**.

Interest, Royalties and Dividends

5.36 As a result of the use of entity's assets by others, interest, royalty or dividend income arise.

5.37 Interest is the requested cost in return of letting use of **cash** or **cash equivalents.**

5.38 Royalty is the cost to let use of long-term assets of the entity such as patents, trademarks, copyrights, software programs.

5.39 Dividend is the distribution of profits to **equity instruments** holders in proportion to their share in the capital class to which the instrument belongs.

5.40 Interest, royalty and dividend income shall be recognised in the financial statements when they meet the general recognising criteria for revenue.

5.41 Interest, royalty and dividend income shall be recognised on the following bases:

a) Interest shall be recognised using the effective interest method as described in section *"Financial Instruments and Equities"*.

b) Royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement.

c) Dividends shall be recognised when the shareholder's right to receive payment is established.

SECTION 6
INVENTORIES

6.1 This section establishes the accounting principles for **inventories**. Within scope of this, it sets out initial recognition, determination of cost of inventories and its subsequent recognition as an **expense** when **impairment** of inventories occurs and the related **revenue** are explained.

Scope and Measurement

6.2 Inventories are **asset**s:

a) Held for sale in the ordinary course of business;

b) In the process of production for such sale; or

c) In the form of materials or supplies to be consumed in the production process or in the rendering of services.

6.3 This section applies to all inventories, except; inventories which have the characteristics of **financial instruments** within the scope of section *"Financial Instruments and Equities"* and **biological assets** related to agricultural activity and **agricultural produce** at the point of **harvest** within the scope of section *"Agriculture"*.

6.4 Inventories shall be measured at the lower of cost and **net realisable value**. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

6.5 Gold and other precious minerals which have the characteristics of inventory, publicly traded or traded in other organized market, is measured by market value after the **reporting period**.

Determination of Cost of Inventories

6.6 The costs of inventories include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

6.7 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

6.8 Inventories purchased in payment for a maturity of one year or less shall be measured by amount of **cash** that is paid or expected to be paid, without distinction of maturity. Inventories purchased in payment for a maturity over one year are measured by cash price (in other words, by price it would pay, if an entity had paid cash price) by distinction of maturity. In this scope, in case of an inventory's being purchased in payment for a maturity more than one year, the amount of maturity difference is recognised as an **interest** expense by calculating with **effective interest method** in accordance with paragraphs 9.14 – 9.19 of section *"Financial Instruments and Equity"*.

6.9 **Borrowing costs** related inventories are recognized in profit or loss in the period in which they are incurred. However, in accordance with paragraph 17.2 of section *"Borrowing Costs"*, incurred borrowing costs for inventories of which production lasts longer than one year under normal conditions are included to cost of inventory until the date of getting ready for sale.

6.10 In receiving inventory, in case of inventory's being acquired in exchange for a non-monetary asset with different characteristic and qualification from the inventory, the cost of acquired asset shall be measured at the **fair value** of the non-monetary asset. Unless the fair value of the asset given up is reliably measurable, the cost of purchase shall be measured based on the fair value of acquired inventory. Unless the fair value of the asset received is reliably measurable, the **carrying amount** of given asset shall be taken in to consideration.

Costs of Conversion

6.11 The costs of conversion of inventories, in the process of converting resource and materials into semi-finished and finished goods, include costs directly related to the production, such as direct labour and a systematic allocation of fixed and variable production overheads. Operating expenses are not considered as conversion costs and such expenses are not allocated to conversion costs.

6.12 For determination of the conversion costs, full cost method shall be used. In full cost method, the whole fixed and variable production overhead shall be included in conversion costs. However; fixed production overheads related to segments of which operations are discontinued temporary or permanently shall not be included in costs of conversion, but recognised in "Cost of Sales" as expense.

6.13 Besides, it is possible to include fixed production overheads in cost of conversion on the basis of normal production capacity (normal cost method). In this situation, normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking the loss of capacity resulting from planned maintenance in to account. The actual level of production may be used if it approximates normal capacity. The amount of fixed production overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised in "Cost of Sale" in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is calculated from dividing total fixed production overhead by total production quantity. In the case of using normal cost method, variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

Other Costs

6.14 Other costs shall be included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

Costs Excluded From Inventories

6.15 The following cost are examples of costs that excluded from the cost of inventories. Such cost are recognised in gain or loss as expenses in the period in which they are incurred.

a) Abnormal amounts of wasted materials, labour or other conversion costs,

b) Storage costs, unless those costs are necessary during the production process before a further production stage,

c) Administrative overheads that do not contribute to bringing inventories to their present location and condition; and

d) Selling costs.

Joint Products and By-Products

6.16 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, they shall be allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, such by-products are measured at net realisable value and this value is deducted from the cost of the main product.

Cost of Inventories of A Service Provider

6.17 To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included in the cost of service, they are recognised as expenses in the period in which they are incurred.

Cost of Agricultural Produce Harvested From Biological Assets

6.18 The section *"Agriculture"* determines how inventories comprising agricultural produce thatharvested from its biological assets should be measured on initial recognition (at the point of harvest). According to section *"Agriculture"*, the determined value in initial recognition shall be taken into account as the cost of agriculture products that are defined as inventories after the point of harvest.

Techniques for Measuring Cost

6.19 Cost of finished good shall be determined on the basis of realized amount of production overheads, according to actual cost method. However; techniques for the measurement of the cost of inventories, such **measurement** methods like the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. At the retail method, the cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin.

Cost Formulas

6.20 The cost of inventories shall be measured by using the first-in, first-out (FIFO) or weighted average cost formula. All inventories having a similar nature and use shall be used the same cost formula. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method (LIFO) is not permitted by this FRS.

6.21 However, the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be calculated by using specific identification of their individual costs.

Impairment of Inventories

6.22 Whether any inventories are impaired shall be assessed at the end of each reporting period. Inventories may be impaired because of damaged, wholly or partially become useless, declining selling prices, increasing completion costs or increasing estimated selling costs. When inventory is impaired, the carrying amount of inventories are written down to net realisable value. This discount amount is the impairment loss and recognised in "Cost of Sales" in the **Statement of Profit or Loss.**

6.23 Assessment of impairment of inventories shall be made for each item of inventory in general. However; in some case, it may be appropriate to group similar or related. For example, grouping can be made when the same product line that have similar purposes or end uses and are produced and marketed in the same geographical area and cannot be practicably evaluated separately from other items in that product line for the purpose of assessing impairment.

6.24 Materials and other supplies held for use in the production of inventories are not written down below the cost if the finished products in which they will be incorporated are unexpected to be sold below cost. However, when a decline in the price of materials indicates that the net realisable value of the finished products exceeds the cost, the value of materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

6.25 Net realisable value of impaired inventories which have been still recognised in the **Statement of Financial Position** shall be reassessed at subsequent **reporting date.** When the circumstances that previously caused inventories to be impaired no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, wholly or partially of impairment loss shall be reversed. The part of the impairment loss to be reversal is determined based on the cost of the related inventory. The value of the inventory determined after impairment cannot exceed the cost.

Recognition as an Expense

6.26 When inventories are sold, the carrying amount of those inventories shall be recognise in "Cost of Sales" in the Statement of Profit or Loss in the period in which the related revenue is recognised in **financial statements.**

6.27 When an inventory is used in business instead of being sold, cost of the inventory may be included in to cost of other assets. In such situations, the cost of the inventory shall be recognised as an expense throughout the **useful life** of the related asset.

SECTION 7
AGRICULTURAL ACTIVITIES

7.1 This section establishes accounting principles for recognising and measuring of **biological assets** and **agricultural produce** at the point of **harvest** of entities which engage in **agricultural activities**. The requirements of this section shall not be applied to agricultural produce after harvest. Measurement, disclosure and recognition of agricultural produce after harvest and accounting transactions for finished goods that appeared from processing of agricultural produce after harvest (i.e. production of cheese) are executed within the scope of section *"Inventories"* or other related sections.

Definitions

7.2 The following terms are used in this section with the meanings specified:

Agricultural activity is the management by an entity of the **biological transformation** and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets. An activity shall be treated as an agricultural activity only if biological transformation of biological assets is managed. Otherwise, this activity shall not be described as an agricultural activity and requirements of this section shall not be applied to agricultural produce and biological assets related to these activities. For example, obtaining products from non-managed sources (from forests, seas etc.) is not an agricultural activity. However, for example fish farming in fish farms is an agricultural activity.

Biological asset is a living animal or plant.

Agricultural produce is the harvested produce of the entity's biological asset.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset. As a result of biological transformation, biologic assets changes by growing, degenerating or procreating or agricultural produce of this assets emerge.

Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

7.3 The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation	Felled trees	Logs, lumber
Dairy cattle	Milk	Cheese
Cattle	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Fruit trees	Picked fruit	Processed fruit
Oil palms	Picked fruit	Palm oil

Recognition and Measurement of Biological Assets

7.4 Biological assets shall be recognised when they meet the definition of asset in the paragraph 1.31 and meet the criteria of recognition in the paragraph 1.33 in the section *"Conceptual Framework and Financial Statements"*.

7.5 Biological assets shall be measured as **accounting policy** preference either **the fair value model** or the cost model. It is possible to choose different models for different class of biological asset.

7.6 If an entity has chosen the fair value model for a class of biological asset, it shall not subsequently change its accounting policy to the cost model.

The Fair Value Model

7.7 If the fair value method is chosen shall measure a biological asset on initial recognition and at each **reporting date** shall be measured at its **fair value less costs to sell**. A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be recognised in profit or loss.

7.8 Even if the fair value method is chosen for the measurement of the class of biological assets, if the fair value of a biological asset included in the class cannot be measured without excessive cost or effort, this biological asset is measured using the cost method. If the fair value of the biological asset becomes measurable later without excessive cost or effort, biological asset begins to be measured at fair value, and the difference between the determined fair value and the previous **carrying amount** is reflected to profit or loss.

The Cost Model

7.9 If the cost model is chosen, the biological assets shall be **depreciable** as in section *"Property, Plant and Equipment"* and the entity shall measure biological assets at cost less any accumulated depreciation and any accumulated **impairment losses.**

Recognition and Measurement of Agricultural Produce

7.10 The agricultural produce shall be recognise in **financial statements** when they meet the definition of asset in the paragraph 1.31 and meet the criteria of recognition in the paragraph 1.33 in the section *"Conceptual Framework and Financial Statements "*.

7.11 Entity's agricultural produce shall be measured at its fair value less costs to sell at the point of harvest and gain or loss arising on initial recognition in profit or loss for the current period. The amount calculated as a result of the such measurement is considered as the cost value of these products at that date when appliying the section "*Inventories"* or of related section they are covered from this.

Determination of the Fair Value

7.12 In determining fair value, an entity shall consider the following:

a) If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity shall use the price existing in the market that it expects to use.

b) If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:

(i) The most recent market transaction price, (provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the **reporting period)**;

(ii) Market prices for similar assets provided that adjustment are made to reflect differences;

(iii) sector benchmarks such as the value of an orchard expressed in area or weight of the harvestable fruit, and the value of cattle expressed in terms of recoverable kilograms of meat.

c) In some cases, the information sources specified in clauses (a) and (b) may suggest different conclusions as to the fair value of a biological asset or an item of agricultural produce. The most reliable estimate is arrived by considering the reasons for differences in a relatively narrow range of value including reasonable estimates of fair value.

d) In some cases, fair value may be readily determinable even though market determined prices or values are not available for a biological asset in its present condition. The **present value** of **cash flows** which is expected to be obtain from the asset by discounting to the current discount rate in the market may be considered in measurement of fair value if it is reliable.

Presentation

7.13 Biological assets within the scope of this section shall be presented in the **Statement of Financial Position** in "Biological Assets" item under Current Assets or Non-Current Assets, separately.

7.14 In terms of biological assets measured using the fair value method; a gain or loss arising on initial recognition of these assets or changes in fair value less costs to sell shall be recognised in **Statement of Profit or Loss** in the item "Change in Fair Value of Agricultural Activities", separately. In accordance with paragraph 7.10 and paragraph 7.11, a gain or loss arising on initial recognition of agricultural produce, also, recognised in this item.

SECTION 8
EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

8.1 This section establishes the basis of **measurement** and recognition for the exploration for and evaluation of minerals, oil, natural gas and similar non-regenerative resources.

Initial Recognition

8.2 An entity shall determine an **accounting policy** that specifies which expenditures are recognised as exploration and evaluation **assets**. This accounting policy is determined in accordance with paragraph 3.4 of "*Accounting Policies, Estimates and Errors*" section and applied consistently. An entity is exempt from applying paragraph 3.5 to its accounting policies for the recognition and measurement of exploration and evaluation assets.

8.3 The following are examples of expenditures that might be included in exploration and evaluation assets:

a) Acquisition of rights to explore,

b) Topographical, geological, geochemical and geophysical studies,

c) Exploratory drilling,

d) Trenching,

e) Sampling,

f) Activities in relation to evaluating whether it is technically possible and economy of extracting a mineral resource.

8.4 Exploration and evaluation assets shall be measured on initial recognition at cost.

8.5 Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. "*The Conceptual Framework and Financial Statement*" and "*Intangible Assets*" provide guidance on the recognition of assets arising from development.

8.6 In accordance with section "*Provisions, Contingencies Liabilities And Contingencies Assets*" an entity **recognises** any **obligation**s for removal and restoration that are incurred as a consequence of having undertaken the exploration for and evaluation of mineral resources.

Subsequent Measurement

8.7 After initial recognition, exploration and evaluation assets shall be measured by their cost value less **depreciation (**or **amortization**) and any **impairment** losses.

Impairment

8.8 Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the **carrying amount** of an exploration and evaluation asset may exceed its **recoverable amount**. If impairment exists, an entity shall recognise and present any resulting impairment loss in accordance with section "*Impairment of Assets*".

8.9 One or more of the following circumstances indicate that an entity should test exploration and evaluation assets for impairment:

a) The period for which the entity has the right to explore in the specific area has expired during the period, or will expire in the near future, and is not expected to be renewed,

b) The additional fund on continuing exploration and evaluation are neither budgeted nor planned,

c) Exploration and evaluation activities have not led to the discovery of economically operable quantity of mineral resources and the entity has decided to discontinue this activity,

d) Sufficient data exists to indicate that, although it is strongly **probable** that the development phase will be passed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full even after successful development or by sale.

Presentation

8.10 An entity shall classify exploration and evaluation assets as **tangible** or **intangible** according to the nature of the assets and apply the classification consistently.

8.11 An entity shall **disclose** following as related to the exploration for and evaluation of mineral resources:

a) Its accounting policies for exploration and evaluation expenditures.

b) The amounts of assets, liabilities, **income** and **expense** and **operating** and **investing** cash flows arising from the exploration for and evaluation of mineral resources.

SECTION 9
FINANCIAL INSTRUMENTS AND EQUITY

9.1 This section establishes accounting principles for financial assets and financial liabilities and accounting bases for equity instruments issued by an entity.

9.2 This section shall not be applied to **subsidiaries** in accordance with the section *"Consolidated and Separate Financial Statements"*, to **associates** in accordance with section *"Investments in Associates"*, to **joint ventures** in accordance with the section *"Investments in Joint Ventures"*. Besides, the requirements of this section shall not be applied to issues for **financial instruments** which are set out specially in other sections such as recognition of receivables and payables from **leases** the related sections, whereas it shall be applied to.

Definitions

9.3 A **financial instrument** is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A **financial asset** is any **asset** of the following:

a) **cash**;

b) An equity instrument of another entity;

c) A contractual right:

   (i) To receive cash or another financial asset from another entity (for example, trade receivables or other receivables, bill, bond etc. securities); or

   (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity;

d) A contract that will or may be settled in the entity's own equity instruments and is:

   (i) A contract for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

   (ii) A contract that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include contracts for the future receipt or delivery of the entity's own equity instruments.

A **financial liability** is any **liability** that is:

a) A contractual obligation:

   (i) To deliver cash or another financial asset to another entity; or

   (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity;

b) A contract that will or may be settled in the entity's own equity instruments and is:

   (i) A contract for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

   (ii) A contract that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include contracts for the future receipt or delivery of the entity's own equity instruments.

An **equity instrument** is any contract that evidences a right in the assets of an entity after deducting all of its liabilities.

9.4 An entity shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. An entity shall also consider the requirements of "Turkish Accounting Standard 32 Financial Instruments: Presentation" when making this classification.

Accounting Principles for Fnancial Assets and Liabilities

9.5 An entity shall recognise a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.

9.6 A financial assets and a financial liability shall be accounted in accordance with financial instruments classes in paragraph 9.7-9.31.

Receivables and Payables

9.7 Receivables and payables arising from commercial or non-commercial transactions of the entity with or without note are considered within this class.

9.8 Subscried capital called for payment and receivables and payables which are a period of one year or less between the date of initial recognition and the date of be received or paid are measured at the **nominal value**. The receivables (excluding subscribed capital called for payment) and payables, which are a period longer than one year between the date of initial recognition and the date of be received or paid, are measured at the **amortized cost** in accordance with paragraphs 9.14 to 9.19,.

9.9 **Interest** received on trade receivables and payables measured at amortized cost in accordance with the **effective interest method** shall be recognised in the items "Other Gains from Operating Activities" or "Other Losses from Operating Activities" in the **Statement of Profit or Loss**; the interest amount calculated according to the effective interest method for other receivables and payables shall be recognised in the items "Interest, Dividend etc. Revenues" or "Interest, etc. Expenses".

9.10 The entity estimates the trade and other receivables that become doubtful, on a reasonable basis at the end of the period and calculates impairment provision for those receivables in accordance with paragraphs 9.32 - 9.38. Doubtful receivables represent receivables that are estimated to have recovered due to various reasons.

Debt Instruments

9.11 A debt instrument other than trade receivables, other receivables, trade payables and other payables and that satisfies all of the following conditions shall be measured at amortised cost:

a) Returns to the lender assessed in the currency in which the debt instrument is denominated are either:

(i) A fixed amount;

(ii) A fixed rate of return;

(iii) A variable return that, is equal to a single referenced quoted or observable interest rate (such as LIBOR); or

(iv) Some combination of such fixed and variable rates, provided that both the fixed and variable rates are positive (such as LIBOR plus 2% rate of return).

b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision.

c) Contractual provisions for debt instruments are not contingent on future events. Contractual provisions that permit or require the issuer (the borrower) to prepay a debt instrument or permit or require the lender to put it back to the issuer before maturity are not contingent on future events other than to protect:

(i) The lender against a change in the credit risk of the issuer or the instrument (for example, defaults, credit downgrades or loan covenant violations) or a change in control of the issuer;

(ii) The lender or issuer against changes in relevant taxation or law.

d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

9.12 Financial asset or financial liability in this class shall be measured at the transaction price, including transaction costs, at initial recognition. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Fees paid to agents and advisers and levies by regulatory agencies can be given as an example of transaction costs.

9.13 Time deposits in the banks, government bonds, treasury bills or private sector bonds and bills can be given as examples of debt securities; credits received, bonds issued and bonds issued can be given as examples of financial liabilities include.

Amortised Cost and Effective Interest Method

9.14 The amortised cost of a financial asset or financial liability at each **reporting date** is the net of the following amounts:

a) The amount at which the financial asset or financial liability is measured at initial recognition;

b) Minus any repayments of the principal;

c) Plus or minus the cumulative **amortisation** using the effective interest method of any difference between the amount at initial recognition in **financial statements** and the maturity amount;
d) Minus, in the case of a financial asset, any reduction for impairment or uncollectability.

9.15 The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest **income** or interest **expense** over the relevant period. The **effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the **carrying amount** of the financial asset or financial liability. The effective interest rate is determined on the basis of the carrying amount of the financial asset or liability at initial recognition. Under the effective interest method:

a) The amortised cost of a financial asset or a financial liability is the **present value** of future cash receipts or payments discounted at the effective interest rate; and
b) The interest expense or income in a period equals the carrying amount of the financial liability or the financial asset at the beginning of a period multiplied by the effective interest rate for the period.

9.16 When calculating the effective interest rate, **cash flows** shall be estimated considering all contractual terms of the financial instrument (e.g. prepayment, call and similar options) and known credit losses that have been incurred, but **possible** future credit losses not yet incurred shall not be considered.

9.17 When calculating the effective interest rate, any related fees, finance charges paid or received (such as 'points'), transaction costs and other premiums or discounts shall be amortised over the expected life of the instrument. However; if the fees, finance charges paid or received, transaction costs, premiums or discounts are related to a shorter period, they are amortised over the short period to which relate. This will be the case when the variable to which the fees, finance charges paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date.

9.18 For variable rate financial assets and variable rate financial liabilities, periodic re-estimation of cash flows to reflect changes in market rates of interest alters the effective interest rate. If a variable rate financial asset or variable rate financial liability is recognised initially at an amount equal to the principal receivable or payable at maturity, re-estimating the future interest payments has normally no significant effect on the carrying amount of the asset or liability.

9.19 If its estimates of payments or receipts are revised, the carrying amount of the financial asset or financial liability (or group of financial instruments) shall be adjusted to reflect actual and revised estimated cash flows. The carrying amount of financial instrument shall be recalculated by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustmens shall be recognised in Statement of Profit or Loss in the items "Gains from Value Increase in Financial Investments" or "Losses from Value Decrease in Financial Investments" at the date of the revision.

Investments in Equity Instruments

9.20 The equity instruments that are publicly traded in stock exchange and/or other organised markets shall be measured at its transaction price in initial recognition and the transaction cost shall be recognised in profit or loss. At the end of each **reporting period**, this equity instruments shall be measured at **fair value** and arising differences value are recognised in profit or loss in the items "Gains on Financial Investments" or "Losses from Financial Investments".

9.21 The equity instruments that are not publicly traded in stock exchange and/or other organised markets shall be measurea at its cost amount, which is the sum of transaction prices and transaction costs, in initial recognition. These equity instruments are measured at cost less any impairment losses, if available, at subsequent reporting dates.

Other Financial Instruments

9.22 Financial instruments not included in the category of receivables and payables, debt instruments and equity instruments are considered as other financial instruments (such as asset-backed securities, derivative financial instruments and commitments to issue and receive credits.)

9.23 Most contracts to buy or sell a non-financial item such as a commodity, **inventory** or **property, plant and equipment** are not in the nature of financial instruments.

However, this all contracts that impose risks on the buyer or seller that are not typical of contracts to buy or sell physical assets are considered within the scope of other financial instruments.

9.24 In addition, contracts to buy or sell non-financial items if the contract can be settled net in cash or another financial instrument, or by exchanging financial instruments as if the contracts were financial instruments are considered within the scope of other financial instruments. However, contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements are not considered as financial instruments.

9.25 Other financial instruments, commitments to receive a loan that cannot be settled net in cash and that meet the definition of a debt instrument when they are committed shall be measured at cost amount. Within this scope, such commitments are measured initially at cost amount by including transaction costs to transaction prices. In subsequent **measurements**, impairment losses, if available, are deducted from the cost amount.

9.26 Other financial instruments other than commitments which are not in the nature in paragraph 9.25 shall be measured at fair value both in initial recognition and subsequent periods and the measurement differences shall be recognised in in profit or loss in the items "Gains on Financial Investments or "Losses from Financial Investments". Transaction cost incurred initial recognition shall be recognised in profit or loss as an expense.

9.27 An entity shall use the following hierarchy to estimate the fair value of an asset:

a) A quoted price for an identical or similar asset in an active market.

b) When quoted prices are unavailable, the price in a recent transaction for an identical or similar asset or liability in an arm's length transaction between knowledgeable, willing parties. However, this price may not be a good estimate of fair value if there has been a significant change in economic circumstances or a significant period of time between the date of the transaction and the measurement date. Besides, if it is considered that the last transaction price does not reflect a good estimate of fair value with various reason (for example, because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

c) If the the asset does not have an active market and any recent transactions of an identical asset or similar asset on their own are not a good estimate of fair value, an entity estimates the fair value by using another valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

9.28 In the case of the fair value is measured by using a valuation method in accordance with paragraph 9.27 (c), the fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-determined inputs. A valuation technique would be expected to arrive at a reliable estimate of the fair value if:

a) It reasonably reflects how the market could be expected to price the asset; and

b) The inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.

9.29 Valuation techniques include using recent arm's length market transactions for an identical asset between knowledgeable, willing parties, if available, reference to the current fair value of another asset that is substantially the same as the asset being measured, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the asset and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is used.

9.30 If a quoted price in an active market and a reliable measure of fair value is no longer available for other financial instruments measured at fair value, they shall not be measured at the fair value anymore. In this case its carrying amount at the last date the asset was reliably measurable becomes its new cost. In the case of the fair value of the assets cannot be measured reliably since initial recognition date, the transaction price of the asset shall be treated as its cost. The asset shall be measured at this cost amount less impairment until a reliable measure of fair value becomes available.

9.31 The fair value of an asset that do not have a quoted market price in an active market is reliably measurable if:

a) The variability in the range of reasonable fair value estimates is not significant for that asset; or

b) The probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

Impairment

9.32 Impairment requirements for all financial assets other than financial assets measured at fair value, which are therefore measured at amortized cost, cost or nominal value, are set out in this section.

9.33 At the end of each reporting period, it is assessed whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, the entity shall recognise an impairment loss in “Other Losses from Operating Activities” for account receivables and “Losses from Financial Investments” for other financial assets.

9.34 Observable evidence that a financial asset or group of assets is impaired includes following:

a) Significant financial difficulty of the issuer or obligor;

b) A breach of contract, such as a default or delinquency in interest or principal payments;

c) The lender, for economic or legal reasons relating to the debtor’s financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;

d) It has become probable that the debtor will enter bankruptcy or other financial reorganisation; or

e) Observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group (such as adverse changes in the economic or industry).

9.35 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates.

9.36 An entity shall assess the following financial assets individually for impairment:

a) All equity instruments regardless of significance; and

b) Other financial assets that are individually significant.

Financial assets other than these are measured individually for impairment or grouped by considering similar characteristics of credit risk.

9.37 An impairment loss on financial assets shall be calculated as follow:

a) For receivables measured at the nominal value, the impairment loss is the difference between the carrying amount and most realistic estimated amount (which might be zero) of the receivable expected to be collected at maturity date.

b) For a financial asset measured at cost, the impairment loss is the difference between the asset's carrying amount and the best estimate be an approximation of the amount (which might be zero) if the asset is sold at the reporting date.

c) For a financial asset measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If such a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

9.38 If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed. The reversal of the impairment loss is determined based on the carrying amount that would have been had the impairment not previously been recognised. Therefore after the reversal of the impairment loss, the new carrying amount of the asset cannot exceed this value .The amount of the reversal shall be recognised in the item “Other Gains from Operating Activities” for trade receivables, in the item “Gains on Financial Investments” for other financial assets.

Derecognition of a Financial Asset

9.39 A financial asset shall be derecognised only when either:

a) The contractual rights to the cash flows from the financial asset expire or are settled;

b) Almost all of the risks and rewards of ownership of the financial asset are transferred to another party;

c) The entity, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer—in this case, the entity shall derecognise the asset; and recognise separately any rights and obligations retained or created in the transfer. The carrying amount of the transferred asset shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised in accordance with this paragraph shall be recognised in profit or loss in the period of the transfer.

d) No reasonable expectation of partial or complete recovery of the value of a financial asset.

9.40 If a transfer does not result in derecognition because the entity has retained significant risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. The asset and liability shall not be offset. In subsequent periods, any income on the transferred asset and any expense incurred on the financial liability shall continue to be recognised.

9.41 If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:

a) If the transferee has the right by contract or custom to sell or repledge the collateral, the transferor shall reclassify that asset in its **Statement of Financial Position** (for example, as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets;

b) If the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral;

c) If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral; and

d) Except as provided in (c), the transferor shall continue to carry the collateral as its asset and the transferee shall not recognise the collateral as an asset.

Derecognition of a Financial Liability

9.42 A financial liability (or a part of a financial liability) shall be derecognised only when it is extinguished, in other words, when the liability specified in the contract is fullfilled, cancelled or expired.

9.43 If an existing borrower and lender exchange financial instruments with substantially different terms, original financial liability is extinguished and new financial liability is recognised. Similarly, an entity shall account for a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) as an extinguishment of the original financial liability and the recognition of a new financial liability.

9.44 Any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) shall be recognised in profit or loss.

Hedge Accounting

9.45 If specified criteria in paragraph 9.46 are met, an entity may designate a hedging relationship between a hedging instrument and a hedged item in such a way as to qualify for hedge accounting. Hedge accounting permits the gain or loss on the hedging instrument and on the hedged item to be recognised in profit or loss at the same time.

9.46 To qualify for hedge accounting, All of the following conditions shall complied with:

a) The hedging relationship is designated and documented. In thıds documentation the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument.

b) The hedged risk is one of the risks specified in paragraph 9.47.

c) The hedging instrument is met specified in paragraph 9.48.

d) The entity expects the hedging instrument to be highly effective in offsetting the designated hedged risk. The effectiveness of a hedge is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

9.47 Hedge accounting shall be applied only for the following risks:

a) Interest rate risk of a debt instrument measured at amortised cost;

b) Foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction;

c) Price risk of a commodity that an entity holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity;

d) Foreign exchange risk in a net investment in a foreign operation.

Foreign exchange risk of a receivable and payable and a debt instrument measured at amortised cost is not in the list because hedge accounting would not have any significant effect on the financial statements. In accordance with the section "*Foreign Currency Translation*", any change in the carrying amount of the payable because of a change in the exchange rate to be recognised in profit or loss. Consequently, both the change in fair value of the hedging instrument (the cross-currency swap) and the change in the carrying amount of the payable relating to the change in the exchange rate would be recognised in profit or loss and should offset each other except to the extent of the difference between the spot rate (at which the liability is measured) and the forward rate (at which the swap is measured).

9.48 Hedge accounting shall be applied only if the hedging instrument has all of the following terms and conditions:

a) It is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 9.47 that is designated as the hedged risk;

b) It involves a party external to the reporting entity (for example; external to the **group**);

c) Its notional amount is equal to the designated amount of the principal or notional amount of the hedged item;

d) It has a specified maturity date not later than:

(i) The maturity of the financial instrument being hedged;

(ii) The expected settlement of the commodity purchase or sale commitment; or

(iii) The occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.

e) It has no prepayment, early termination or extension features.

Hedge of Fixed Interest Rate Risk of A Recognised Financial Instrument or Commodity Price Risk of A Commodity Held

9.49 If hedged risk is the exposure to a fixed interest rate risk of a debt instrument measured at amortised cost or the commodity price risk of a commodity that it holds, the entity shall:

a) Recognise the hedging instrument as an asset or liability and the change in the fair value of the hedging instrument in profit or loss; and

b) Recognise the change in the fair value of the hedged item related to the hedged risk in profit or loss and as an adjustment to the carrying amount of the hedged item.

9.50 If the hedged risk is the fixed interest rate risk of a debt instrument measured at amortised cost, the periodic net cash settlements on the interest rate swap that is the hedging instrument shall be recognised in profit or loss in the period in which the net settlements accrue.

9.51 The hedge accounting specified in paragraph 9.49 shall be discontinued if:

a) The hedging instrument is expired, sold or terminated;

b) The hedge no longer meets the conditions for hedge accounting specified in paragraph 9.46; or

c) The entity revokes the hedge accounting.

9.52 If hedge accounting is discontinued and the hedged item is an asset or liability carried at amortised cost that has not been derecognised, any gains or losses recognised as adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Hedge of Variable Interest Rate Risk of A Recognised Financial Instrument, Foreign Exchange Risk or Commodity Price Risk In A Firm Commitment or Highly Probable Forecast Transaction or A Net Investment In A Foreign Operation

9.53 The portion of the change in the fair value of the hedging instrument that was effective in offsetting the change in the fair value or expected cash flows of the hedged item shall be recognised in **equity** in the item "Hedging Reserve", if the hedged risk is:

a) The variable interest rate risk in a debt instrument measured at amortised cost;

b) The foreign exchange risk in a firm commitment or a highly probable forecast transaction;

c) The commodity price risk in a firm commitment or highly probable forecast transaction; or

d) The foreign exchange risk in a net investment in a foreign operation.

Any excess of the cumulative change in the fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows of the hedged item (sometimes called hedge ineffectiveness) shall be recognised in profit or loss. The hedging gain or loss recognised in equity shall be reclassified to profit or loss when the hedged item is affected to profit or loss or the hedging relationship discontinues, subject to the requirements in paragraph 9.55. However, the cumulative amount of any exchange differences that relate to a hedge of a net investment in a foreign operation recognised in equity shall be reclassified in the item "Accumulated Profit or Loss", when these investments are sold out.

9.54 If the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost, the periodic net cash settlements from the interest rate swap that is the hedging instrument shall be recognised in profit or loss in the period in which the net settlements accrue.

9.55 The hedge accounting specified in paragraph 9.53 shall be discontinued if:

a) The hedging instrument is expired, sold or terminated;

b) The hedge no longer meets the criteria for hedge accounting in paragraph 9.46;

c) In a hedge of a forecast transaction, the forecast transaction is no longer highly probable; or

d) The entity revokes the hedge accounting.

If the forecast transaction is no longer expected to take place or if the hedged debt instrument measured at amortised cost is derecognised, any gain or loss on the hedging instrument that was recognised in the item "Hedging Reserve" shall be reclassified to profit or loss.

Equity

9.56 In this title, the accounting principles for the equity instruments issued by the entity are determined.

9.57 Equity is the residual interest in the assets of an entity after deducting all its liabilities. Equity includes investments by the owners of the entity, plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.

9.58 Members' shares in co-operative entities and similar instruments are equity if:

a) The entity has an unconditional right to refuse redemption of the members' shares; or

b) Redemption is unconditionally prohibited by local law, regulation or the entity's governing charter.

Original Issue of Shares

9.59 Shares shall be recognised as equity when they are issued and another party is obliged to provide the entity cash or other resources to the entity in return these shares.

9.60 If the equity instruments are issued before the the cash or other resources are received, the amount to be received are recognised as an offset to equity in its Statement of Financial Position in the item "Unpaid Capital".

9.61 If the the cash or other resources are received before the equity instruments are issued, and the entity cannot be required to repay the cash or other resources received, the item "Capital" in Statement of Financial Position the entity shall be increased in to the extent of consideration received.

9.62 If the equity instruments have been subscribed for but not issued and the entity has not yet received the cash or other resources, the entity shall not recognise an increase in equity.

9.63 The equity instruments shall be measured at the nominal value of the cash or other resources received or receivable and at the fair value of the non-cash resources obtained or obtainable which is determined in initial recognition, net of direct costs of issuing the equity instruments.

9.64 The direct costs of issuing the equity shall be accounted for as a deduction from equity in the item "Share Premium". **Income tax** arising from the equity transaction costs shall be accounted for in accordance with the section *"Taxes on Income"*.

9.65 There will be no change in the total equity as a result of dividing the shares (dividing the existing shares into more than one share) or issuing a bonus share. However, transfers are made between the equity items when necessary.

Convertible Debt or Similar Compound Fnancial ınstruments

9.66 On issuing convertible debt or similar compound financial instruments that contain both a liability and an equity component, an entity shall allocate the proceeds between the liability component and the equity component. To make the allocation, the entity shall first determine the amount of the liability component. The value of the liability component shall be determined as the fair value of a similar liability that does not have a conversion feature. The remaining amount represents the amount of the equity component. Transaction costs shall be allocated between the debt component and the equity component on the basis of their relative amounts. The allocation shall not be adjusted in later periods.

9.67 After initial recognition, if the liability component meets the conditions in paragraph 9.11, it shall be measured at its amortised cost. Within the scope of this, the entity shall systematically recognise any difference between the liability component and the principal amount payable at maturity as additional interest expense using the effective interest method.

Treasury Shares

9.68 Treasury shares are the equity instruments of an entity that have been issued and subsequently reacquired by the entity. If the entity repurchases its own shares, the fair value of the consideration given for the treasury shares shall be deducted from equity. Moreover, in this case, the entity reserves a reserve funds with the amount that meets the acquisition value for its shares which it acquired and repurchased in accordance with Article 520 of the Turkish Commercial Code dated 13/1/2011 and numbered 6102. Any gain or loss shall not be recognised a in profit or loss due to the purchase, sale, issue or cancellation of treasury shares.

9.69 İf the subsidiary of an entity, which prepares a **consolidated financial statement,** have the shares of this entity**,** this is considered as repurchase of its own shares in respect of the entity. In this context, the shares of the entity held by the subsidiary are totally eliminated during the consolidation, including amounts corresponding to **non-controlling interests**, if any, and the amount of equity is reduced accordingly. In addition, any gain or loss shall not be recognised in profit or loss due to purchase, sale, export or cancellation of the shares.

9.70 In addition, if the entity owns shares in an associate or joint venture accounted for using the equity method, entity's ownership of the shares is assessed similarly to the entity's own share repurchases and entity's shares that the associate or joint venture holds are eliminated during the application of the equity method. In this context, the part of the entity's shares that associate or the joint venture reflected in the financial statements for the shares of the entity, is eliminated and the amount of equity is reduced accordingly. In addition, it is necessary for the profit of the associate or the joint venture to be deducted from the profit due to shares of entity held, and recognise the part of its share in this profit as income.

Distributions to Owners

9.71 The amount of distributions to its owners shall be reduced equity (amount before the income tax withheld). Income taxes withheld from owners from the dividend accrued to the owners shall be accounted for in accordance with the section *"Taxes on Income"*.

9.72 When an entity distributes non-cash assets to its owners as a **dividend** instead of cash assets, the accounting transactions are carried out as follows: When an entity declares such a distribution and has an obligation to distribute non-cash assets to its owners, it shall recognise a liability. It shall measure the liability at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity as adjustments to the amount of the distribution. When an entity settles the dividend payable, it shall recognise in profit or loss any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable.

9.73 On the other hand, if the fair value of the assets to be distributed cannot be measured reliably, the liability shall be measured at the carrying amount of the assets. If the fair value of the assets to be distributed can be measured reliably until the dividend payment is made, the carrying amount of the liability and the amount of the dividend to be distributed will be adjusted to the fair value determined.

SECTION 10
INVESTMENTS IN ASSOCIATES

10.1 This section establishes the accounting principles for investments in **associate.**

Associates Defined

10.2 An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a **subsidiary** nor an interest in a **joint venture**.

10.3 Significant influence is the power to participate in the financial and operating policy decision processes of the investee but is not **control** or **joint control** over those policies.

10.4 If an investor holds, directly or indirectly (for example, through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case.

10.5 If the investor holds, directly or indirectly less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

10.6 A substantial or majority ownership by another investor does not preclude an investor from having significant influence.

The Measurement of Associates

The Measurement in Initial Recognition

10.7 Associates shall be measured on initial recognition at cost. When the cost of associate is determined in initial recognition, the requirements for the determination of the cost of **business combination** in section *"Business Combinations"* are applied by comparatively.

10.8 When investments which are previously monitored as **financial instrument** in accordance with the section *"Financial Instruments and Equity"* becomes an associate investment through the acquisition of additional **equity** shares, if they can be measured reliably, the equity shares previously held by an entity are determined in the **fair value** on the date of making the additional investment and the difference between the fair values and the **carrying amounts** is recognised in profit or loss. In this case, the sum of the determinated fair value and the costs which incurred in the acquisition of additional equity shares generates the cost of the associate in initial recognition.

Subsequently Measurement

10.9 Associates shall be measured at the cost method or the equity method in the **individual financial statements.**

10.10 Investments in associates shall be measured at the equity method in the **consolidated financial statement**s.

Cost Method

10.11 If the cost method is preferred, associates shall be measured at cost less any accumulated **impairment losses** calculated in accordance with section *"Impairment of Assets"*.

10.12 An entity assesses at the end of the **reporting period** whether there is an objective evidence that its investment in an associate is impaired. If the assessment indicated that the investment may be impaired, the carrying amount of the investment is tested for impairment in accordance with section *"Impairment of Assets"* by comparing with its **recoverable amount** and if any impairment loss is presented in "The Expenses from Other Operations" under the "Other Expenses" item.

10.13 **Dividend** or other distributions received from the investment shall be recognise in the **statement of profit or loss** under the "Dividends from Subsidiaries, Associates and Joint Ventures" item without regard to whether the distributions are from accumulated profits of the associate arising before or after the date of acquisition.

10.14 If associates shall be measured at cost method, the results of transactions between investor and associate are not eliminated.

10.15 If an entity loses significant influence over its associate, the investment is monitored as the associate that is discontinued in the **financial statement**s. The loss of significant influence can occur with or without a change in absolute or relative proportionate interest in the associate. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator.

10.16 The loss of significant influence can occur with a full disposal of an investment in an associate or the investment becomes a subsidiary in the scope of section *"Consolidated Financial Statements"*, a joint venture in the scope of section *"Investments in Joint Ventures"*, a financial instrument in the scope of section *"Financial Instruments and Equity"*.

10.17 If an investment becomes a financial instrument in the scope of section *"Financial Instruments and Equity"*, the retained interest in an entity is started to be monitored as "Financial Investments" in the financial statements in accordance with paragraphs 9.20 – 9.21 of that section. The retained interest in the entity from the carrying amount of the associate at the date significant influence is lost, is presumed as the transaction price when these interests are initially recognised as a financial investment. The difference between the fair value of the price from disposal of the associate's share and the carrying amount of that associate at the date it is disposed, is recognised in profit or loss in the "Other İncome" item under the Income from Other Operations or "Other Expenses" item under the Expenses from Other Operations.

10.18 If an investment in an associate becomes an investment in a joint venture or a subsidiary or the investment continues the associate after the increasing or decreasing of an entity's ownership interest, if the entity continues to apply the cost method, it does not re**measure** the shares previously held by it.

Equity Method

10.19 If the equity method is used, the carrying amount of an investment in an associate, from the associate's;

a) Net profit (loss) for the period and

b) Gains and losses accounted in its **equity** (for example, "Revaluation Reserve", "Foreign Exchange Translation Differences" and "Hedging Reserve" items) in the current period,

is increased or decreased by an entity's interest.

10.20 Accordingly, an entity's interest of an associate in the net profit (loss) for the period is presented in the Individual Statement of Profit or Loss under the "Interests from Profits (Losses) of Subsidiaries, Associates and Joint Ventures" item, the Consolidated Statement of Profit or Loss under the "Interests from Profits (Losses) of Associates and Joint Ventures" item. The entity's interest of gains or losses that the associate accounted in equity in the current period is presented in the Individual Statement of Financial Position under the "Interests from Gains and Losses of Subsidiaries, Associates and Joint Ventures" item, the Consolidated Statement of Financial Position under the "Interests from Gains and Losses of Associates and Joint Ventures" item.

Additionally, the carrying amount of the associate is also reduced by the acquisition of the amount of dividend or other distribution from the associate.

10.21 Most of the foreseen transactions in the application of the equity method are similar to full consolidation transactions which are described in section *"Consolidate Financial Statements"*. The basis for transactions which are used to account for the acquisitions of subsidiary is also adopted in the accounting for the acquisition of associates. When the equity method is applied, transactions are carried out by considered following matters:

a) *Calculation of share in associate:* An entity's share in an associate is the aggregate of its own shares and the holdings in that associate by its subsidiaries that the entity owns directly or indirectly. However, the holding in that associate by its own associates and joint ventures and its subsidiaries' associates or joint ventures is not considered in the calculation of the entity's share in the associate.

b) *An associate has subsidiaries, associates and joint ventures:* When an associate which is accounted by the equity method has subsidiaries, associates or joint ventures, the amount of profit or loss taken into account in applying the equity method, the amount of gain or loss and the amount of **net asset** are accounted in equity in the current period, is the resulting amount that the associate consolidates its subsidiaries in accordance with the full consolidation method; it consolidates its associates and joint ventures in accordance with the equity method.

c) ***Goodwill*** *or Negative goodwill (gain on negotiated purchase):* The paragraphs 21.26 – 21.28 of section *"Business Combinations"* are applied by comparatively in the calculation of goodwill for acquisition of an investment in an associate. Nevertheless, there is no need to determine the fair value at the acquisition date of the associate's assets and **liabilities** in the calculation of goodwill; instead of this, the carrying amounts of assets and liabilities in the associate's financial statements which are prepared in accordance with this Standard, are taken into account.

(i) If the determinated cost of an associate in initial recognition is higher than an entity's share in the net carrying amount which is calculated according to the values of the associate's assets and liabilities in its own financial statements that are prepared in accordance with this Standard in respect of the acquisition date of its assets and liabilities (or in the net carrying amount which is calculated according to the fair values at the acquisition date of the associate's assets and liabilities in its financial statements that are prepared in accordance with this Standard as not benefited from exemption in (c)), the resulting difference is taken into account as goodwill. However, goodwill is not recognised separately, it is presented in the carrying amount of the associate in the financial statements of the investor. Moreover, the **amortisation** is not been for the resulting goodwill and goodwill is not tested for impairment separately.

(ii) If the determinated cost of an associate in initial recognition is lower than an entity's share in the net carrying amount which is calculated according to the values of the associate's assets and liabilities in its own financial statements that are prepared in accordance with this Standard in respect of the acquisition date of its assets and liabilities (or in the net carrying amount which is calculated according to the fair values at the acquisition date of the associate's assets and liabilities in its financial statements that are prepared in accordance with this Standard as not benefited from exemption in (c)), the resulting difference is taken into account as negative goodwill. When the entity's interest from the associate's net profit (loss) for the period is determined in the period of acquisition of the investment, negative goodwill is included to **income**s in the item "Interests from Profits of Associates and Joint Ventures".

d) *Fair value adjustments:* If the fair value at the acquisition date of an associate's assets and liabilities in its own financial statements which are prepared in accordance with this Standard as not benefited from exemption in (c) is determined, when an entity calculates its interest of gains or losses that the associate accounted in equity in the current periods and its interest of the associate's the net profit (or loss) for the period, it determines income and **expense**s for these assets and liabilities on the basis of their fair values at the acquisition date. In this framework for example, the entity's interest in its associate's profit or loss or its interest of gains or losses that the associate accounted in equity in the current period is made appropriate adjustments by calculating the depreciation charges in the period for the **depreciable** assets from the fair value at the acquisition date.

e) *Impairment:* An entity assesses at the ends of the reporting period whether there is an objective evidence that its investment in an associate is impaired. If the assessment indicated that the investment may be impaired, the entire carrying amount of the investment is tested for impairment in accordance with the section *"Impairment of Assets"* by comparing with its recoverable amount and if any impairment loss is presented in The Expenses from Other Operations under the "Other Expenses" item.

f) *Investor's transactions with associates:* If the associates are accounted for by the equity method, the investor shall eliminate unrealised profits and losses resulting from upstream (as sales of assets from the associate to the investor) or downstream (as sales of assets from the investor to the associate) transactions to the extent of the investor's interest in the associate. When downstream transactions provide an evidence of impairment of the assets to be sold or given to the associate, those impairment losses shall be recognised in full by the investor. When upstream transactions provide an evidence of impairment of the assets to be purchased, the investor shall recognise only its own share in those losses.

g) *Date of associate's financial statements:* In applying the equity method, the investor shall use the financial statements of the associate as of the same date as its own financial statements. For this purpose, when the end of the reporting period of the entity is different from that of the associate, the associate prepares, for the use of the entity, financial statements as of the same the end of the reporting period as of the entity. However, if it is impracticable that the associate prepares financial statements as of the same date as the financial statements of the entity, the investor shall use the most recent available financial statements of the associate and it shall make adjustments for the effects of any significant transactions and events occurring between the two reporting period ends. In any case, the difference between the end of the reporting period of the entity and its associate shall be no more than three months.

h) *Associate's* ***accounting policies:*** If the associate uses accounting policies that differ from those of the investor, the investor shall adjust the associate's financial statements in accordance with its own accounting policies for the purpose of applying the equity method unless it is impracticable to do so.

i) *Losses in excess of investment:* If an investor's share of losses of an associate equals or exceeds the carrying amount of its investment in the associate, the investor does not recognise for its share of additional losses as its share of the associate's loss. After the investor's share is reduced to zero, the investor shall account for additional losses by a **provision** only to the extent that the investor has incurred legal or **constructive obligation**s or has made payments on behalf of the associate (see section *"Provisions, Contingencies Liabilities and Contingencies Assets"*). If the associate subsequently reports profits, the investor shall resume accounting for its share of those profits only after its share of the profits equals the share of losses not accounted.

j) *Discontinuing the equity method:*

(i) If an investor loses significant influence over an associate, the use of the equity method is discontinued.

(ii) If an investment in an associate becomes a subsidiary, a business combination achieves in stages and the accounting transactions for that business combination made by applying in accordance with the section *"Business Combinations"*.

(iii) If an investment becomes a financial instrument in the scope of section *"Financial Instruments and Equity"*, the retained interest in an entity is started to be monitored as "Financial Investments" in the financial statements in accordance with paragraphs 9.20 – 9.21 of that section. If the entity may measure reliably the retained interests at fair value at the date significant influence is lost, this value is; if the entity may not measure them reliably, the retained interest in the entity from the carrying amount of the associate at the date the equity method was discontinued, is presumed as the transaction price when these interests are initially recognised as a financial investment. The difference between the carrying amount of the investment at the date the equity method was discontinued as deducted from the sum of the value of the retained interests presumed as the transaction price at initial recognition and if any the fair value of the price from disposal of the associate's share, is recognised in profit or loss in the "Other İncome" item under the Income from Other Operations or “Other Expenses” item under the Expenses from Other Operations.

(iv) If the use of the equity method is discontinued, the amounts for an investment that had previously been accounted in equity in the Individual Statement of Financial Position under the “Interests from Gains and Losses of Subsidiaries, Associates and Joint Ventures” item or the Consolidated Statement of Financial Position under the “Interests from Gains and Losses of Associates and Joint Ventures” item are transferred to “Accumulated Profit/Loss” item.

k) *An investment in an associate becomes an investment in a joint venture:* If an investment in an associate becomes an investment in a joint venture, the entity continues to apply the equity method and does not remeasure the shares previously held by it.

l) *Changes in ownership interest:* If an entity’s ownership interest is reduced, but the entity does not lose significant influence over the investment, it doesn’t remeasure the retained interest in it. In this case, the amounts for the investment that had previously been accounted in equity in the Individual Statement of Financial Position under the “Interests from Gains and Losses of Subsidiaries, Associates and Joint Ventures” item or the Consolidated Statement of Financial Position under the “Interests from Gains and Losses of Associates and Joint Ventures” item relating to that reduction in ownership interest is transferred to “Accumulated Profit/Loss” item. Similarly, the entity’s ownership interest is increased and the investment continues the associate after increasing, the entity does not remeasure the shares previously held by it.

SECTION 11
INVESTMENTS IN JOINT VENTURES

11.1 This section establishes accounting principles for investments in **joint venture**s.

Joint Ventures Defined and Types

11.2 A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to **joint control**.

11.3 Joint control is the contractually agreed sharing of control over an economic activity. This control is considered to exists only when decisions relating to the strategic activities require the unanimous consent of the parties sharing control (the venturers).

11.4 In this section, joint ventures are classified into three different types as jointly controlled operations, jointly controlled **asset**s or **jointly controlled entities** according to their form of formation and the accounting principles for each are determined.

Jointly Controlled Operations

11.5 The operation of such joint ventures involves the use of the assets and other resources of the venturers instead of the establishment of a corporation, partnership or another type of entity, or a financial structure that is separate from the venturers themselves. In jointly controlled operations, each venturer uses its own **property, plant and equipment** and its own **inventories**. Besides, **expenses** and **liabilities** for carrying out the activity are paid by each venturer on their behalf. The venturers finance as independently for liabilities that are incurred on their behalf for the activity. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the **revenue** from the sale of the joint product and any expenses incurred in common are shared among the venturers.

11.6 In respect of its interests in jointly controlled operations, a venturer shall recognise following in the **financial statements**:

a) The assets that it controls and the liabilities that it incurs and

b) The expenses that it incurs and its share of the **income** that it earns from the sale of goods or services by the joint venture.

11.7 A venturer shall account for and measure assets, liabilities, income and expenses related to interest in jointly controlled operations within the framework of the sections applied to them.

11.8 When an entity makes a transaction such as the sale or contribution of assets with a jointly controlled operation that the entity is its venturer, this transaction is carried out with the other parties of the jointly controlled operation. Therefore, the venturer shall recognise gain or loss from such transactions only that is attributable to the interests of the other venturers in the jointly controlled operation. If such transactions provide evidence of an **impairment** in the sale or contribution of assets to the jointly controlled operation, the full amount of impairment loss shall be recognised by the venturer.

11.9 When an entity purchases assets from a jointly controlled operation that the entity is its venturer, the entity shall not recognise its share of the profits and losses until it resells the assets to an independent party. The venturer shall recognise its share of the losses when such transactions provide evidence of an impairment loss in the purchasing of assets.

Jointly Controlled Assets

11.10 Such joint ventures involve the joint control by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. In such a case, the venturers have often the joint ownership of such assets. In such joint ventures as jointly controlled operations are not established a corporation, partnership, other entity or a financial structure that is separate from the venturers themselves. Each venturer, within the framework of the agreement, receives its shares on the revenue from assets and incurs its shares from expenses.

11.11 In respect of its interest in a jointly controlled asset, a venturer shall recognise in its financial statements:

a) Its share of the any assets controlled jointly (by assets classes),

b) Any liabilities that it has incurred,

c) Its share of any liabilities incurred jointly with the other venturers in relation to the joint venture,

d) Its share of any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture,

e) Its share of any expenses that it has incurred in respect of its interest in the joint venture.

11.12 A venturer shall recognise and measure assets, liabilities, income and expenses related to interest in jointly controlled assets within the framework of the sections applied to them.

11.13 An entity eliminates the effects of transactions such as the sale or contribution of assets with a jointly controlled asset that the entity is its venturer or purchasing asset from the jointly controlled asset in accordance with paragraphs 11.8 and 11.9.

Jointly Controlled Entities

11.14 A jointly controlled entity is a joint venture that requires the establishment of an entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

11.15 Jointly controlled entities are measured in the same way as investments in **associate**s. In this framework, the paragraphs 10.7 – 10.21 of "*Investments in Associates*" are applied by comparatively in the **measurement** of jointly controlled entities. In the application of the paragraphs, "associate" and "significant influence" are considered as "jointly controlled entity" and "joint control" respectively.

11.16 If the investment in a jointly controlled entity which is measured by using the cost method becomes an associate investment subsequently, the cost method is continued to be applied and the rest of shares in the entity is not remeasured.

11.17 If the investment in a jointly controlled entity which is measured by using the equity method becomes an associate investment, the equity method is continued to be applied and the shares previously held by the entity are not remeasured. In this case, the part of decreasing in the share of this partnership from the amounts related to the jointly controlled investment that are previously accounted in **equity** under "The Shares from Gain and Losses of Subsidiaries, Associates and Joint Ventures" item in the individual statement of financial position or under "The Shares from Gain and Losses of

Associates and Joint Ventures” item in the consolidated statement of financial position is transferred to “Accumulated Profit/Loss” item.

SECTION 12
PROPERTY, PLANT AND EQUIPMENT

12.1 This section establishes accounting principles for **property, plant and equipment.** In this scope, initial recognition of property, plant and equipment, the determination of their **carrying amounts** and **the depreciation** and **impairment** related to these **asset**s issues have been discussed.

Scope and Initial Recognition

12.2 Property, plant and equipment tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period. **Biological assets** related to **agricultural activities** and mineral rights and mineral reserves are not assessed as property, plant and equipment in accordance with the scope of this section.

12.3 Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this section when they meet the definition of property, plant and equipment. Otherwise, such items are classified as **inventories**.

12.4 By extending the economic life of asset or by expanding its capacity expenditures that will be obtained incremental benefit from it in future are recognised in the carrying amount of asset. Such expenditures are included replacement expenditures and expenditures made for large-scale controls when they meet the definition of property, plant and equipment.

12.5 Land and buildings are separable assets and an entity shall account for them separately, even when they are acquired together.

12.6 Property, plant and equipment shall be measured at their cost at initial recognition.

12.7 Cost of the purchased property, plant and equipment comprises from its purchase price after deducting trade discounts and rebates, **expenses** incurred depending on the purchase transaction and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

12.8 In this framework, among the elements that may be recognised in the cost of property, plant and equipment acquired through purchase can be shown are:

a) Transportation and assembly costs.

b) Customs taxes.

c) Notary, court, appraisal etc. costs.

d) Non-refundable taxes,duties and charges paid at the time of purchase.

e) Fees paid to self-employed person due to conducting businesses related to asset.

f) Costs related to preparation of place that the asset will be located.

g) Expenses for purchasing and destruction of an existing building and preparing the place or the land that asset will be located.

h) Costs of testing whether the asset is functioning properly. However, the revenue from products produced in this stage is deducted from these costs.

12.9 Property, plant and equipment purchased in payment for a maturity of one year or less, without distinction of maturity, are measured on the amount **cash** that is paid or expected to be paid. Property, plant and equipment purchased in payment for a maturity over one year are measured on cash price (In other words, if an entity had paid cash price, it would have paid price) by distinction of maturity, In this scope, when property, plant and equipment is purchased in payment for a maturity than one year, the amount of maturity difference are recognised at **interest** expense based on **effective interest method** in accordance with paragraphs 9.14 – 9.19 of section "*Financial Instruments and Equity*".

12.10 **Borrowing costs** of property, plant and equipment are recognised in profit or loss in the period in which they are incurred. However in accordance with paragraphs 17.2 of "*Borrowing Costs*", the construction of property, plant and equipment that lasts longer than one year under normal conditions incurred borrowing costs are recognised in the cost of property, plant and equipment until the date of it is ready to use.

12.11 The costs of self-constructed and self-produced assets are determined using the same principles as for an acquired asset. Besides, when an entity makes similar assets for sale in the normal course of business, these assets are assessed in the scope of section "*Inventories*" and the cost of its production is measured according to this section.

12.12 When one or more of property, plant and equipment may be acquired in exchange for a non-monetary asset and/or assets, the cost of the acquired property, plant and equipment and assets is determined on the basis of the net carrying amount of disposal non-monetary item. Besides non-monetary item in exchange transaction if a monetary item has been received or given, **the net fair value of** paid **monetary item** is added to the net carrying amount of disposal non-monetary item or the fair value of receiving monetary item is deducted from the net carrying amount of disposal non-monetary item.

12.13 When more than one property, plant and equipment are acquired together, the cost of each property, plant and equipment is determined by distributing the total cost value related to property, plant and equipment at market prices proportion.

12.14 The cost of an item of property, plant and equipment acquired by **leasing** is determined in accordance with "*Leases*".

Subsequent Measurement

12.15 Property, plant and equipment after initial **recognition**s are measured at cost less any accumulated depreciation and any accumulated impairment losses or their revalued amount. Expenses of normal maintenance and repair related to property, plant and equipment are not recognised in asset's cost.

12.16 After initial recognition property, plant and equipment when it is measured at revalued amount, the measurement value will be based on that the fair value of date on which the revaluation is made. After this date asset's revalued ammount is calculated from its fair value at the date of the revaluation deducting after date of the revaluation accumulated depreciation amount and accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the **reporting period**. In determining fair value, in section "*Financial Instruments and Equity*" paragraphs 9.27-9.29 are applied by comparatively.

12.17 In the revaluation date on fair value of property, plant and equipment that subject to revaluation as may be determined by persons who are authorised by public institutions to make valuation of the relevant property, plant and equipment, in the revaluation date on fair value of asset may be determined by persons who have necessary professional knowledge and current information about the class and place of property, plant and equipment. Who made the valuations is **disclosed**.

12.18 If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

12.19 If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in **the Statement of Financial Position** in **equity** under the item of "Revaluation Reserve". However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is deducted from revaluation reserve to the extent of existing in the revaluation reserve in respect of the same asset. If a revaluation decrease exceeds the amount in the revaluation reserve, the difference shall be recognised in profit or loss.

12.20 If property, plant and equipment is derecognised, the accumulated amount related to this asset in the revaluation reserve is transferred to the item of "Accumulated Profit or Loss".

Depreciation

12.21 Depreciation for property, plant and equipment is required.

12.22 The significant part of property, plant and equipment may have a different **useful life** from property, plant and equipment and/or it may be necessary to use a depreciation method for this part different from used for property, plant and equipment. In this case, each such major parts are depreciated separately. For example, if a significant part of property, plant and equipment is renewed regularly, it should be depreciated differently from property, plant and equipment.

12.23 Land and terrains have an unlimited useful life and therefore is not depreciated. However, for example, the sections have a limited useful life such as constructing roads and arcs in the entity, they should be depreciated separately.

12.24 Depreciable amount is determined by the cost value of property, plant and equipment or the amount of after revaluation less its **residual value**.

12.25 An entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life. Useful life is the period over which an asset is expected to be available for by an entity or the amount of production or usage expected to be obtained from the asset by an entity. Useful life is determined by the entity based on realistic estimates.

12.26 Depreciation of an asset begins when it is available for use and ceases when the asset is derecognised. Therefore, **depreciation** based on using day-to-day basis is calculated for asset received to usage in the period.

12.27 Residual value is the estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. If the residual value of an asset is insignificant, it is not considered in determining the depreciable amount.

12.28 A depreciation method shall be selected to reflects the pattern in which it expects to consume the asset's future economic benefits. Unless there is a change in the expected form of consumption of the future economic benefits will be obtained from the property, plant and equipment, selected method is applied consistently by periods.

12.29 A variety of methods can be used for depreciation. The straight-line method, the diminishing balance method and the units of production method may be given as examples to these methods. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output.

12.30 Depreciation is continued when the asset becomes idle or is retired from active use. However, under the methods of depreciation in accordance with the units of production method the depreciation charge can be zero while there are no production or usage.

12.31 When a change in how an asset is used, unexpected wear or tear occurs, technological advancement and changes in market prices occur or similar cases, the residual value and useful life of the asset may change. If such indicators are present, previous estimates of residual value, depreciation method or useful life shall be reviewed; if there are difference in expectations, residual value, useful life and depreciation method shall be amended. Such amendments are characterised as **changes in accounting**

estimates in accordance with the section "*Accounting Policies, Estimates and Errors*". Accordingly, the non-depreciable ammounts calculated according to new residual value are allocated on a systematic basis according to the selected depreciation method over the determined new useful life.

12.32 The depreciation charge for period shall be recognised in profit or loss as long as it is not included the carrying amount of another asset. The depreciation charge recognised in **the Statement of Profit or Loss** is shown in the items which the expenses reported related to entity functions of the using related asset. For example, the depreciation charge for property, plant and equipment used in the marketing department is presented in the statement of profit or loss in the item of "Marketing Expenses".

Impairment

12.33 At each the end of the reporting period, to determine whether items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss, the requirements of section "*Impairment of Assets*" is applied.

12.34 The compensation to be received from third parties for property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable shall be recognised in profit or loss

Derecognition

12.35 An item of property, plant and equipment shall be derecognised when on disposal or no future economic benefits are expected from its use.

12.36 A gain or loss on the derecognition of an item of property, plant and equipment shall be recognised in profit or loss when the item is derecognised

SECTION 13
INVESTMENT PROPERTY

13.1 This section establishes the accounting, measurement and disclosure principles of **investments property**.

Scope

13.2 Entities may hold their property (and or a building, or part of a building, or both) to earn rental **income** or for capital appreciation or both. Therefore, these **assets** generate **cash flows** largely independently of the other assets held by an entity. Assets with these characteristics are defined as an investment property and requirements of this section are applied to them.

13.3 Such properties may be properties held by the owner or by the lessee under a **finance lease**. Additionally, property that is being constructed or developed for future use as investment property shall be considered within this scope.

13.4 While a part of a property is held for investment purposes, the other part can be held for use in business activities. If the **fair value** of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as **property, plant and equipment** in accordance with section *"Property, Plant and Equipment"*.

Initial Recognition and Measurement

13.5 Investment properties shall be measured at its cost at initial recognition by applying initial recognition requirements of section *"Property, Plant and Equipment"* (except in the cases existing investment properties transferred to another class). However; the initial cost of an investment property held under a lease shall be prescribed by the lessee, applying requirements of section *"Leases"* for the initial measurement of a finance lease.

13.6 In the case of a property held under an **operating lease** meets the definition of investment property, the rights related to these properties can be classified as investment properties. In this case, when the rights related to these properties are recognised initially, requirements regarding financial leasing are applied instead of the requirements regarding the operating leasing in the section *"Leases"*. Subsequent measurement these rights shall be made in accordance with this section. In this case, the element to be assessed in the initial recognition or in the subsequent measurements is not the property subject to the contract but the right established on this property. In addition, an entity shall recognise and measure **liabilities** arising from the lease **contract** by applying the lease requirements of the section *"Leases"*.

Subsequent Measurement

13.7 Investment property can be measured by applying either the fair value method or the cost method after initial recognition. This choice is an **accounting policy** preference and the chosen method shall be applied to all investment property.

13.8 In the case of where the fair value method is applied for the measurement of investment property, investment property shall not be measured by cost method with making a change in the accounting policy afterwards.

13.9 If the investment property is measured by using the fair value model, the fair value of all investment property at the end of the **reporting period** shall be determined and presented in the **Statement of Financial Position**. In determining the fair value, paragraphs 9.27 - 9.29 in the section *"Financial Instruments and Equity"* are applied by comparatively. Changes in the fair value of investment properties over the periods shall be recognised in profit or loss.

13.10 Although the fair value method is chosen for the measurement of investment properties, the investment properties of which the fair value cannot be determined without undue cost or effort shall be measured at cost. In this case, the **cost-depreciation-impairment** method in the section *"Property, Plants and Equipment"* shall be used at measurement of the fair value of the related property. If the fair values become measurable without undue cost or effort, these properties shall be started to be measured at fair value and the difference between the fair value determined and the previous **carrying amount** shall be recognised in the items "Investment Property Value Appreciation and Selling Profit" or "Investment Property Value Decrease and Selling Losses " in profit or loss.

13.11 The fair value of the investment property can be determined by the people authorized by public institutions to make investment valuation, as well as by those who have the necessary professional knowledge and have up-to-date information about the class and the location of investment property. It shall be disclosed in notes that who made the valuation.

13.12 If investment properties shall be measured using the cost model, all investment properties shall be measured by using the cost-depreciation-impairment method in the section *“Property, Plants and Equipment”*.

Presentation

13.13 Investment properties shall be presented in the item "Investment Property" in the Statement of the Financial Position, separately.

13.14 Value increase gains or value decrease losses related to investment property measured at fair value are presented separately in the "Investment Property Value Appreciation and Selling Profit " or "Investment Property Value Decrease and Selling Losses " in the **Statement of Profit or Loss.**

13.15 Depreciation **expenses** and impairment losses related to investment property measured at cost shall be recognised in "Value Decrease and Sale Losses of Investment Property" item under the Expenses from Other Activities in the Statement of Profit or Loss.

Transfers

13.16 In the case of differentiation of the holding purpose of the investment properties, these assets shall be transferred to the property, plant and equipment or **inventories** in accordance with the new holding purpose.

13.17 In this case, the value at the time of the reclassification of the investment property shall be determined in accordance with this section and transferred to the related asset groups. For example, if a building held for investment purposes and measured at fair value is used for administrative purposes, the building's value at the time of the reclassification is determined, the change in fair value is reflected in the profit or loss and transferred to the property, plant and equipment at the newly determined fair value.

13.18 If an inventory or property, plant and equipment is held for investment purposes, those assets shall be transferred to investment property through the fair value or carrying amount at the date of reclassification in accordance with paragraph 13.7.

13.19 If an investment property is measured at fair value, the difference between the carrying amount and the fair value of the asset at the date of reclassification shall be considered as a revaluation increase or revaluation decrease in accordance with the section

"Property, Plant and Equipment" in the case that a property, plant and equipment is transferred to investment properties. When the related investment property is derecognised, the accumulated amount of the revaluation reserve related to this asset is transferred to the item "Accumulated Profit or Loss".

13.20 If an investment property is measured at fair value, the difference between the fair value of the asset and the prior carrying amount at the date of reclassification of the asset shall be recognised in the profit or loss in the item "Cost of Sales".

13.21 If an investment property is measured using the cost method, the property, plant and equipment or inventory to be classified as investment property shall be transferred to investment properties through carrying amount.

Derecognition

13.22 An investment property item shall be derecognised when it is disposed or when no future economic benefits are expected from the asset. Gains or losses arising from derecognition of the property are recognised in the profit or loss.

SECTION 14
INTANGIBLE ASSETS

14.1 This section establishes the accounting principles for **intangible assets**. Within scope of this, it is covered the issues of the initial recognition of intangible assets, the determination of their **carrying amounts**, the calculation of **amortisations** for this assets and the **impairment**.

Scope

14.2 An intangible asset is an identifiable non-monetary asset without physical substance.

14.3 Such an asset is identifiable when:

a) It is separable, (i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or **liability**); or

b) It arises from contractual or other legal rights, (regardless of whether those rights are transferable or separable from the entity or from other rights and obligations).

14.4 This section does not apply to the **goodwill** arising from **business combination** and intangible assets held for sale in the ordinary course of business. The recognition and **measurement** requirements of the goodwill arising from business combination are covered in the section *"Business Combination"*. The intangible assets held for sale in the ordinary course of business shall be recognised and measured in accordance with the section *"Inventories"*.

14.5 Mineral rights and mineral reserves are not considered as intangible assets in accordance with this section.

14.6 Some intangible assets may incorporate both intangible and tangible elements. In this case, an entity uses judgement to assess which element is more significant and recognised related asset as **property, plant and equipment** or as intangible asset.

Inıtıal Recognition

14.7 Intangible asset shall be measured at cost in initiall recognition.

14.8 The cost of a separately acquired intangible asset comprises its purchase price, after deducting trade discounts and rebates; and any directly attributable cost of preparing the asset for its intended use. In this framework, the followings can be given as examples of expenditures that may be included in the cost of an intangible asset acquired through purchase:

a) Import duties.

b) Non-refundable taxes,duties and charges paid at the time of purchase.

c) Notary, court, appraisal, commission, etc. expenses.

d) Fee paid to self-employed person due to work done in relation to the asset.

e) Costs of testing whether the asset is functioning properly.

14.9 Intangible assets purchased in payment for a maturity of one year or less shall be measured at amount of **cash** that is paid or expected to be paid, without distinction of maturity. Intangible assets purchased in payment for a maturity over one year are measured by cash price (in other words, by price it would pay, if an entity had paid cash price) by distinction of maturity. In this scope, in case of an intangible asset's being purchased in payment for a maturity more than one year, the amount of maturity difference is recognised as an **interest** expense by calculating with **effective interest method** in accordance with paragraphs 9.14 – 9.19 of the section *"Financial Instruments and Equity"*.

14.10 **Borrowing costs** related intangible assets are recognized in profit or loss in the period in which they are incurred. However, in accordance with paragraph 17.2 of the section *"Borrowing Costs"*, incurred borrowing costs for intangible assets of which production lasts longer than one year under normal conditions are included to cost of intangible asset until the date of getting ready for sale.

14.11 If an intangible asset is acquired in a business combination, the cost of that assest is the value determined on the acquisition date in accordance with the section *"Business Combination"*.

14.12 If an intangible asset is acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, the cost of the acquired intangible asset(s) is determined on the basis of the net carrying amount of the non-monetary asset given up. In addition to the non-monetary item in the exchange transaction, if a monetary item is also acquired or given up, the **fair value** of the **monetary item** is added to the net carrying amount of the non-monetary item or the fair value of the monetary item acquired is deducted from the net carrying amount of the non-monetary item given up.

14.13 If an intangible asset is acquired with an operation that is included in the section *"Leases" the* cost of that asset is determined in accordance with that section.

14.14 Internally generated goodwill and expenditures that incurred on an intangible item and do not meet the definition of intangible assets shall not be recognised as an intangible asset unless it forms part of the cost of another asset that meets the recognition criteria in this Standard, they are recognised as an expense in profit or loss when it is incurred. Expenditures related to the following are considered within this scope:

a) Internally generated goodwill;

b) Internally generated brands, logos, publishing titles, customer lists and items similar substance;

c) Pre-operating costs;

d) Expenditures on training activities;

e) Expenditure on advertising and promotional;

f) Expenditures on relocating or reorganising part or all of an entity;

14.15 To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into two phase; a **research** phase and a **development** phase.

14.16 Research is an investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Expenditures on research phase shall not be capitalised but shall be recognised as an expense in profit or loss when it is incurred.

14.17 Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. Expenditures on development phase shall be recognised as intangible asset if, and only if, following conditions are met :

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

b) Its intention to complete the intangible asset and use or sell it.

c) Its ability to use or sell the intangible asset.

d) How the intangible asset will generate **probable** future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

14.18 Expenditure incurred from the date on which the conditions set out in paragraph 14.17 are incurred are the cost of the intangible asset that is generated internally. Expenses previously recognised as an expense shall not subsequently be included in the cost of the related asset. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset. In this framework, expenditures that may be included in the cost of a generated internally intangible asset include:

a) Costs of materials and services used or consumed;

b) Fees paid;

c) Fees to register a legal right;

d) **Depreciations** and amortisations for assets used.

14.19 If the research phase and the development phase of an internal project to create an intangible asset cannot be distinguished, the expenditures as considered as if it were incurred in the research phase.

14.20 Expenditures that increase future benefits from an intangible asset and that can be directly attributable to the asset are included in the carrying amount of the related asset.

Subsequently Measurement

14.21 After initial recognition, intangible assets shall be measured at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation

14.22 Amortization is mandatory for intangible assets with a finite useful life.

Intangible Assets with Finite Useful Life

14.23 The depreciable amount is determined by deducting the **residual value** from the cost value of the intangible asset.

14.24 The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity. Useful life is determined freely by the entity based on realistic estimates.

14.25 Amortisation begins when the intangible asset is available for use and ceases when the asset is derecognised. Therefore, the **amortisation** based on the day-to-day basis used for assets acquired during the period is calculated.

14.26 The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

14.27 The residual value is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

14.28 An entity shall assume that the residual value of an intangible asset is zero unless:

a) There is a commitment by a third party to purchase the asset at the end of its useful life; or

b) There is an active market for the asset and:

(i) Residual value can be determined by reference to that market; and

(ii) It is probable that such a market will exist at the end of the asset's useful life.

14.29 The amortisation method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset. The selected method is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits.

14.30 A variety of methods can be used for amortisation. The straight-line method, the diminishing balance method and the units of production method can be given example as these methods., allocate the depreciable amount of an asset on a systematic basis over its useful life. In the straight-line method, as long as the residual value of the asset does not change, the amortization expense is constant over its useful life. In the diminishing balance method, amortization expense is diminished over the useful life. In the production quantity method, amortisation is made over the expected use or production amount. If the expected consumption of the future economic benefits cannot be determined reliably, the asset is amortised by using the straight-line method.

14.31 When a change in how an asset is used, unexpected wear or tear occurs, technological advancement and changes in market prices occur or similar cases, the residual value, useful life or amortization method of the asset may change. If such indicators are present, previous estimates of residual value, amortisation method or useful life shall be reviewed; if there are differences in expectations, residual value, useful life and amortisation method are amended. The change are considered as **change in an accounting estimate** in accordance with the section *"Accounting Policies, Estimates and Errors"*. Accordingly, the unamortised amounts calculated according to the new residual value are distributed systematically according to the selected amortisation method over the determined new useful life.

14.32 Amortization expense for the period shall be recognised in the profit or loss as long as it is not included in the carrying amount of another asset. Amortization expenses reflected in profit or loss are shown in the **Statement of Profit or Loss** in the items that report expenses related to the business function in which the related asset is used. For example, an amortization expense for an intangible asset used in the marketing segment is presented in the item "Marketing Expenses" in the Statement of Profit or Loss.

Intangible Assets with Indefinite Useful Life

14.33 An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. In this case, the intangible asset shall be amortized over the period determined by the entity, not less than 5 years but not more than 10 years.

14.34 The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with the section *"Accounting Policies, Estimates and Errors"*. Accordingly, the depreciable amount of an intangible asset shall be allocated on a systematic basis according to the selected amotisation method over its useful life.

Impairment

14.35 To determine whether an intangible asset is impaired, and if any, to determine how to measure and recognise, an entity shall apply the requirements of section *"Impairment of Assets"*.

Derecognition

14.36 An intangible asset shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

14.37 A gain or loss arising from derecognition of an intangible asset shall be recognised in profit or loss.

SECTION 15
LEASES

15.1 This section establishes accounting principles for recognition and **measurement** of **lease** transactions, with the objective of the lessees and lessors are set out.

Scope

15.2 Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an **asset** for an agreed period of time.

15.3 This section applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This section does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

15.4 Leases to explore for or use natural resources, licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights and **operating leases** that are onerous are not within the scope of this section.

Definitions

15.5 The following terms are used in this section with the meanings specified:

The inception of the lease: the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As from at this date:

a) A lease is classified as either an operating or a **finance lease**; and
b) If in the case of a lease is classified finance lease, the amounts to be recognised at the **commencement of the lease term** are determined.

The commencement of the lease term: the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.
The lease payments: the payments over the lease term that the lessee is required to make. If there is any **residual value** guaranteed, this amount is considered within the scope of the lease payments.
Besides, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than **fair value** at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,

the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

Contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor are not included in the lease payments.

The interest rate implicit in the lease: the discount rate that, at the commencement of the lease, causes the aggregate **present value** of the minimum lease payments and the unguaranteed residual value to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

Classification of Leases

15.6 The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

15.7 If it transfers substantially all the risks and rewards incidental to ownership, a lease is classified as a finance lease regardless of whether the ownership is transferred at the end of the lease term.

15.8 A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

15.9 Lease classification is made at the inception of the lease and is not changed during the term of the lease unless the lessee and the lessor agree to change the provisions of the lease (except renewal of the lease). However when the lease are changed, this clasification shall be re-evaluated.

15.10 In lease transactions that meet one or more of the following conditions, it is accepted that almost all risks and returns arising from the ownership of the asset are transferred to the lessee and the leasing transaction is recorded as finance lease:

a) The ownership of the asset will be transferred to the lessee by the end of the lease term;

b) The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

c) The lease term is for the 80% of the economic life of the asset.The economic life is either the period over which an asset is expected to be economically usable or the quantity of production or usage expected to be obtained from the asset.

d) At the inception of the lease the present value of the minimum lease payments amounts to at least %90 of the fair value of the leased asset.

15.11 Additionally, indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

a) The leased assets are of such a specialised nature that only the lessee can use them without major modifications;

b) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

c) Gains or losses from the fluctuation in the residual value of the leased asset accrue to the lessee;

d) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market price.

15.12 Lease contracts related to land,plot and buildings are considered to be financial leases only if one of the following conditions exists:

a) The ownership of the asset will be transferred to the lessee by the end of the lease term;

b) The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised

Initial Recognition and Subsequent Measurement of Leases by Lessees

Finance Leases

15.13 At the commencement of the lease term, lessees shall recognise finance leases as assets and **liabilities** arising from contract at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Such two values are determined as from the inception of the lease.

15.14 The asset subject to financial lease shall be recognised in the related item in the **Statement of Financial Position.** For example, if the subject to be leased is a building, that asset is included in the item "Buildings" in the Statement of Financial Position.

15.15 The present value of the lease payments shall be calculated using the interest rate implicit in the lease. If this cannot be determined, the interest rate that, at the inception of the lease, the lessee would incur to borrow over a similar term and with a similar security, the funds necessary to purchase the asset shall be used.

15.16 Any initial direct costs of the lessee are added to the amount recognised as an asset.

15.17 Lease payments shall be apportioned between the finance **charge** and the reduction of the outstanding liability after initial recognition. The lessee shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents payments shall be recognised in profit or loss in the periods in which they are incurred.

15.18 At the end of the periods, a lessee shall apply the measurement requirement of the section of which the asset subject to lease is within the scope. (e.g. *"Property, Plant and Equipment"*, *"Intangible Assets"* or *"Investment Property"*). Within the scope of this, a lessee shall **depreciate** or **amortise** an asset leased under a finance lease, if it is necessary. In that case, if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its **useful life**. Additionally, a lessee shall also apply the requirements of the section *"Impairment of Assets"* in order to whether an asset leased under a finance lease is **impaired**, if the section of which asset is within the scope requires.

Operating Leases

15.19 A lessee shall recognise lease payments under operating leases as an expense in profit or loss over the lease term on a straight-line basis.

Initial Recognition and Subsequent Measurement of Leases by Lessors

Finance leases

15.20 A lessor shall derecognise assets held under a finance lease. A lessor shall recognise a receivable at an amount equal total fair value of the asset and the initial direct costs.

The difference between the fair value of the asset and **the carrying amount** shall be recognised in profit or loss.

15.21 Lease payments received shall be apportioned between the finance **income** and the principle repayment after initial recognition. Financing incomes shall be recognised on a straight-line basis that reflects a constant periodic rate of interest (in other word the interest rate implicit in the lease) on the remaining receivable. Contingent rents payments shall be recognised in profit or loss in the periods in which they are occurred.

Manufacturer or Dealer Lessors

15.22 A manufacturer or dealer shall recognise the lease transaction as an ordinary sale transaction.

15.23 The sales **revenue** recognised at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest.

15.24 The cost of sale recognised at the commencement of the lease term is calculated by deducting the present value of the unguaranteed residual value from the carrying amount of asset.

15.25 The difference between the sales revenue and the cost of sale shall be recognised as profit or loss from ordinary sales transactions in “Gross Profit/Loss”.

15.26 A manufacturer or dealer shall recognise the initial direct cost as an expense in profit or loss.

15.27 If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged.

Operating Leases

15.28 A lessor shall recognise lease payments under operating leases as an income in profit or loss over the lease term on a straight-line basis.

15.29 A lessor shall adds the initial direct cost of operating leases to the carriying amount of leased asset and reflect this costs in profit or loss as an expense over the lease term.

15.30 At the end of the periods, a lessor shall apply the measurement requirement of the section of which the asset subject to lease is within the scope. (e.g. *"Property, Plant and Equipment", "Intangible Assets"* or *"Investment Property"*). Within the scope of this, a lessor shall depreciate or amortise based on the part of an asset leased under a finance lease, if it is necessary. Additionally, a lessee shall also apply the requirements of the section *"Impairment of Assets"* in order to whether an asset leased under a finance lease is impaired, if the section of which asset is within the scope requires.

Sale and Leaseback Transaction

15.31 A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

15.32 If a sale and leaseback transaction results in a finance lease, the seller-lessee shall not recognise immediately, as income, any excess of sales proceeds over the carrying amount. This amount is reflected in the Statement of Financial Position and is amortised over the lease term.

15.33 If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the seller-lessee shall recognise any profit or loss immediately. If the sale price is below fair value, the seller-lessee shall recognise any profit or loss immediately unless the loss is compensated for by future lease payments at below market price. In the case of the loss is compensated for future lease payments at below market price, the seller-lessee shall recognise such loss in the Statement of Financial Position and amortise such loss in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the seller-lessee shall recognise the excess over fair value in the Statement of Financial Position and amortise it over the period for which the asset is expected to be used.

SECTION 16
GOVERNMENT GRANTS

16.1 This section establishes accounting principles for **government grants** and assistances provided by non-government.

Scope

16.2 Government grants are assistance by government in the form of transfers of resources to an entity in return for compliance with certain conditions relating to the operating activities of the entity. With government grants, it is aim to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Therefore; benefits provided only indirectly through action affecting general trading conditions (such as making the road to the service of the public, the provision of infrastructure services) are not considered as government grants.

16.3 Government grants exclude those forms of government assistance that cannot reasonably have a value placed upon them and transactions with government that cannot be distinguished from the normal trading transactions of the entity.

16.4 This section does not cover government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are corporate tax exemption, investment tax credits, accelerated **depreciation** allowances and reduced income tax rates.

16.5 Loans granted and forgiven by government when pre-determined conditions are met are considered as state incentives. Besides; the benefit of a government loan at a below-market rate of interest is treated as a government grant.

16.6 This section also applies by comparatively to the assistance provided by non-government entities and the same kind as government grants described in this section.

Recognition and Measurement

16.7 Government grants shall be recognised as follows:

a) A grant that does not impose specified future performance conditions on the entity or a grant that entity have already met the specified conditions are recognised in profit or loss when the grant proceeds are receivable

b) A grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met. These grants are recognised in the item "Deferred income" in the **Statement of Financial Position** form received to be recognised in the profit or loss or to be recovered as the performance conditions cannot be met.

16.8 A grants shall be measured at the **fair value of the asset** received or receivable.

16.9 The government loan at a below-market rate of interest shall be recognised in the item “Other Financial Liabilities” in the Statement of Financial Position, measured at the **present value** calculated by discounting the repayments to be made to the governments for this loan with the market interest rate applied for a similar loan. The difference between amount of government loan and **financial liability** which is recognised in the Statement of Financial Position shall be recognised as government grants in accordance with this section.

SECTION 17
BORROWING COSTS

17.1 In this section recognition of **borrowing costs** is set out. Borrowing costs are **interest** and other costs incuried in connection with the borrowing. Examples of borrowing costs are:

a) Interest **expense** calculated using the **effective interest method** as described in section *"Financial Instruments and Equity"*.

b) Finance charges in respect of **finance leases** recognised in accordance with section *"Leases"*.

c) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Recognition

17.2 Borrowing costs that are directly related to acquirement of **inventories, property, plants and equipment, investment property** and **intangible asset** that their production, construction or creation are longer than one year under normal conditions (e.g. financial costs including incurred exchange differences due to loans used for these assets) shall be included in the cost of the asset, until the date of getting ready for sale or usage. All other borrowing costs are recognized in profit or loss in the related item of the **Statement of Profit or Loss** in the period in which they are incurred.

SECTION 18
IMPAIRMENT OF ASSETS

18.1 This section establishes accounting principles for **impairment** in order to ensure that its **assets** are carried at no more than their **recoverable amount** in the **financial statements**. Within the scope of this, this section specifies issues of the determination and calculation of impairment of assets and reversal these losses.

Scope

18.2 This section shall be applied in accounting for the impairment of all assets other than the following:

a) **Inventories** within the scope of the section *"Inventories";*

b) **Biological assets** related to **agricultural activity** within the scope of the section *"Agriculture"* that are measured at **fair value less costs to sell**;

c) **Financial assets** that are within the scope of the section "*Financial Instruments and Equity";*

d) **Investment property** that is measured at **fair value** within the scope of the section *"Investment Property";*

e) **Deferred tax assets** within the scope of the section *"Income Tax*".

18.3 Recoverable amount is the higher of an asset's (or **cash-generating unit's**) fair value less costs to sell and its **value in use.** An asset shall not be recognised in the **Statement of Financial Position** with a higher amount than the recoverable amount. An impairment loss occurs when the **carrying amount** of an asset exceeds its recoverable amount.

18.4 At the end of each **reporting period,** it is assessed whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset shall be estimated. If there is no indication of impairment of an asset, including **intangible asset** with indefinite **useful life**, it is not necessary to estimate the recoverable amount.

Indicator of Impairments

18.5 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are **likely** to affect materially the discount rate used in calculating an asset's value in use and decrease the asset's fair value less costs to sell.

d) The carrying amount of the net assets of the entity is more than the estimated fair value of the entity as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the entity).

e) Evidence is available of obsolescence or physical damage of an asset.

f) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs and plans to dispose of an asset before the previously expected date.

g) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. In this context economic performance includes operating results and **cash flows**.

18.6 If there is an indication that an asset may be impaired, this may indicate that the entity should review the remaining useful life, the **depreciation** or **amortisation** or method and the **residual value** for the asset and adjust it, even if no impairment loss is recognised for the asset.

Determination of Recoverable Amount

18.7 Recoverable amount is determined for an individual asset. However; in the case that it cannot be determined for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit of an asset is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

18.8 Although an asset does not generate cash inflows that are largely independent, if the asset's fair value less costs to sell is higher than its carrying amount or if the asset's value in use can be estimated to not exceeds to its fair value less costs to sell materially, the recoverable amount of the cash-generating unit to which the asset belongs is not determined.

18.9 In the case that the recoverable amount of an asset cannot be determined, the statement of "asset" in the following requirements, except for the specific requirements for the cash-generating unit, is considered to be as "cash-generating unit" and such requirements shall apply to the cash-generating unit.

18.10 It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

18.11 If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal.

Fair Value Less Costs to Sell

18.12 Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In this direction, a price in a binding sale agreement in an arm's length transaction or a market price in an active market provides a realistic evidence.

18.13 If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal, considering the outcome of recent transactions for similar assets within the same industry.

18.14 For calculating the fair value less cost to sell, stamp duty and other similar costs that must be legally paid for the sales costs that can be deducted from the fair value, costs of carrying the assets, cost incurred to remove a restriction that the asset is subject to, and additional costs incurred to bring an asset into condition for its sale can be presented as an example of such costs.

Value in Use

18.15 Value in use is the **present value** of the future cash flows expected to be derived from an asset.

18.16 The following elements shall be reflected in the calculation of an asset's value in use:

a) The future cash flows the entity expects to derive from the asset;

b) Possible variations in the amount or timing of those future cash flows;

c) The time value of money (represented by the current market risk-free rate of interest);

d) The price for bearing the uncertainty inherent in the asset; and

e) Other factors, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset (for example; reduced liquidity of the asset).

18.17 This present value calculation involves the following steps:

a) Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and

b) Applying the appropriate discount rate to those future cash flows.

18.18 The elements identified in paragraph 18.16(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. In addition, if the discount rate includes the effect of price increases related to general inflation, future cash flows shall be also estimated at nominal values.

18.19 Estimates of future cash flows which is the first step of measuring value in use shall include:

a) Projections of cash inflows from the continuing use of the asset;

b) Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset including cash outflows to prepare the asset for use and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and

c) Net cash flows, if any, expected to be received (or paid) for the disposal of the asset at the end of its useful life in an arm's length transaction between knowledgeable, willing parties.

18.20 Any recent financial budgets or forecasts may be used to estimate the cash flows, if available. To estimate cash flow projections beyond the period covered by the most recent budgets or forecasts, the projections based on the budgets or forecasts may be expanded by using an appropriate growth rate (increasing, steady or declining) for subsequent years.

18.21 Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from a future restructuring to which an entity is not yet committed or improving or enhancing the asset's performance. In addition; estimates of future cash flows shall not include cash flows from **financing activities** or **income tax** receipts or payments.

Discount Rate

18.22 The discount rate (rates) used in the present value calculation shall be a pre-tax rate (rates) that reflect(s) current market assessments of:

a) The time value of money (represented by the current market risk-free rate of interest);

b) The risks specific to the asset for which the future cash flow estimates have not been adjusted.

Goodwill and The Carrying Amount of Cash-Generating Unit

18.23 **Goodwill** is not tested for impairment.

18.24 The carrying amount of a cash-generating unit includes the carrying amount of:

a) Those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and

b) Those assets that will generate the future cash inflows used in determining the cash-generating unit's value in use.

18.25 Even if the conditions in paragraph 18.24 are met, any goodwill shall no be taken into account in the calculation of the carrying value of the cash-generating unit. Therefore, in the case that an impairment of an asset is determined by calculating the recoverable amount of the cash generating unit to which it belongs, even if a goodwill amount that can be attributed to or distributed to the cash generating unit is discussed, it is not included in the carrying amount of the related cash generating unit. In this respect, if any indication exists that the cash-generating unit is impaired, the unit is tested for impairment by comparing its carrying amount that not included goodwill amount with its recoverable amount.

18.26 In addition, the carrying amount of a cash-generating unit does not include the carrying amount of any recognised liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this **liability**.

Recognition of Impairment Loss

18.27 An impairment loss of an asset which is tested individually and measured at cost shall be recognised in profit or loss. However; any impairment loss of **property, plant and equipment** measured at revalued amount shall be treated as a revaluation decrease in accordance with the section *"Plant, Property and Equipment".* Impairment losses recognized in profit or loss are presented in the **Statement of Profit or Loss** in the item in which the expenses related to the business function of the asset are recognised. For example, the impairment loss related to the marketing segment shall be presented in the item "Marketing Expenses" and the impairment loss related to the production segment shall be presented in the item "Cost of Sales". Impairment related investment properties measured at cost shall be presented in the item "Investment Property Value Decrease and Sales Losses" under Expenses from Other Activities.

18.28 Similarly, in the case that the recoverable amount of the cash-generating unit is less than it's carrying amount, an impairment loss shall be recognised for a cash-generating unit. Such impairment loss shall be allocated to the related assets pro rata on the basis of the carrying amount of each asset (other than goodwill) in the unit. Within this scope, impairment loss of assets shall be accounted as described in paragraph 18.27.

18.29 However, the carrying amount of any asset in the cash-generating unit shall not be less than the highest of:

a) Its fair value less costs to sell (if determinable);

b) Its value in use (if determinable); and

c) Zero.

18.30 An amount of the impairment loss that cannot be allocated to an asset because of the restriction in paragraph 18.29 shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of those other assets.

18.31 After the recognition of an impairment loss, the depreciation or amortisation charge for the asset shall be calculated in the future periods based on the asset's revised carrying amount.

Reversal of an Impairment Loss

18.32 At the end of each reporting period, it is assessed whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. Indications that an impairment loss may have decreased or may no longer exist are generally the opposite of those set out in paragraph 18.5. If any such indication exists, it is determined whether all or part of the prior impairment loss should be reversed by estimating the recoverable amount of related asset or cash generating unit.

18.33 When the prior impairment loss was based on the recoverable amount of the individual impaired asset, the recoverable amount of the asset shall be estimated at the current reporting date in the same way, individually, in determination of whether the impairment loss will be reversed or not. On the other hand; when the original impairment loss was based on the recoverable amount of the cash-generating unit to which the asset; the recoverable amount of that cash-generating unit shall be estimated at the current reporting date in the same way, in determination of whether the impairment loss will be reversed or not.

18.34 If the estimated recoverable amount of the asset exceeds its carrying amount, all or part of the impaired loss shall be reversed. The reversal of an impairment loss shall be determined based on the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. After the reversal of the impairment loss, the new carrying amount of the asset cannot exceed this value.

18.35 Any reversal of impairment loss of the assets tested individually and measured at cost shall be recognised in profit or loss and present in the Statement of Profit or Loss whereas any reversal of an impairment loss of the property, plant and equipment measured at revalued amount shall be treated as a revaluation increase in accordance with the section *"Property, Plant and Equipment."*

18.36 When the original impairment loss was based on the recoverable amount of the cash-generating unit to which the asset belongs, the entity shall estimate the recoverable amount of that cash-generating unit at the current reporting date. If the estimated recoverable amount of the cash-generating unit exceeds its carrying amount, the entity shall reverse the impairment loss of the cash generating unit.

18.37 The entity shall allocate the amount of that reversal to the assets of the unit (except for goodwill) pro rata with the carrying amounts of those assets. They are recognised as prescribed in paragraph 18.35.

18.38 However; the reversal shall not increase the carrying amount of any asset above the lower of:

a) Its recoverable amount; and
b) The carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

18.39 An amount of the reversal of the impairment loss that cannot be allocated to an asset because of the restriction in 18.38 above shall be allocated pro rata to the other assets of the unit.

18.40 After a reversal of an impairment loss is recognised, the entity shall calculate the depreciation or amortisation based on the revised carrying amount of the asset in future periods.

SECTION 19

PROVISIONS, CONTINGENCIES LIABILITIES AND CONTINGENCIES ASSETS

19.1 This section establishes accounting principles for **provisions**, **contingencies liabilities** and **contingencies**. This section specifies how recognition and measurement of provisions and contingent assets and contingent liabilities are reflected in the financial statements.

Scope

19.2 This section applies all provisions, including also employee benefits, contingent liabilities and contingent assets, except for the provisions specifically addressed in other sections. (e.g. arising from **leases**, **construction contracts**, income **taxes**)

19.3 The requirements in this section do not apply to contracts under which neither party has performed any of its **obligations** or both parties have partially performed their obligations to an equal extent, unless they are onerous contracts. **An onerous contract** is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Entities that are inevitably damaged by such a contract reserve a provision for unavoidable losses. For example, in the event of a contractual obligation to lease an entity that is no longer used under an operational lease, the entity allocates a provision for the amount that reflects the best estimate of the expenditure expected to be incurred at the end of the reporting period to fulfill the obligation. This amount can be, for example, the amount that the owner of the asset will accept to cancel the lease.

Provisions

19.4 A provision is a liability of uncertain timing or amount. Examples of provisions include guarantees, claims, customer replies, obligations related to the closure and restructuring of a facility. The provisions in this section do not apply to the adjustments related to **carrying amount** of assets (**depreciation**, doubtful receivables, and **depreciation** of other assets) that do not require an obligation to be recorded and the provisions of this section do not apply.

19.5 A provision shall be recognised only when:

a) The entity has an obligation at the reporting date as a result of a past event;

b) It is **probable** that the entity will be required to transfer economic benefits in settlement (in other words, the probability of occurrence is higher than the probability of not); and

c) The amount of the obligation can be estimated reliably.

19.6 The provision shall be recognised as a liability in the **Statement of Financial Position** and the amount of the provision as an **expense** shall be recognised, unless another section requires the cost to be recognised as part of the cost of an asset.

19.7 The condition in paragraph 19.5(a) means that the entity has no realistic alternative to settling the obligation. This can happen when:

a) The entity has a legal obligation that can be enforced by law; or

b) Even if it is not legally required, the liability the entity has a **constructive obligation.** The constructive obligation of an entity arises when the past practices show that it will accept certain responsibilities to the other parties through its policies or clear and current statements and, as a result, creates a valid expectation that it will fulfill these responsibilities on the other parties.

19.8 It is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions. For example; provisions shall be recognised for obligations for penalties or clean-up costs for unlawful environmental damage. Because this kind of obligations would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the entity. In contrast, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation or selling the factory, it has no present obligation for that future expenditure and no provision is recognised.

19.9 The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The best estimate is the reasonable amount that an entity to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

19.10 Since the provisions are more uncertain in terms of their characteristics than many items in the Statement of Financial Şosition, the use of estimations in their measurement holds an important place. In this framework, the entity shall make a judgement in measurement of estimated payable amount for the provision. The management's judgment must reflect the experience of similar transactions and, in some cases, evaluations from independent experts.

19.11 When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. In such calculation, the amoun of provision will therefore be different depending on the probability of a loss (for example, 60 per cent or 90 per cent). Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

Example 1:

An entity sells 1,000 units from a good with a warranty under that it will repair any manufacturing defects that become apparent within the first six months after purchase. If minor defects were detected in the products, repair costs of 1 million would result. If major defects were detected in the products, repair costs of 4 million would result. The entity's past experience and future expectations indicate that, for the coming year, 75 per cent of the goods sold will have no defects, 20 per cent of the goods sold will have minor defects and 5 per cent of the goods sold will have major defects. In such case, the entity shall recognise provisions;

[(1.000 units x 75% x 0 TL) + (1.000 units x 20% x 100 TL) + (1.000 units x 5% x 400 TL)] = 40.000 TL

19.12 When the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, other possible outcomes are considered. When other possible outcomes are either mostly different from most likely outcome, the best estimate will be a different amount.

Example 1:

With regard to a case filed against the business, the lawyer of the entity estimates that, based on his previous experience, the entity will have to pay a compensation of TL 2,000,000 in the 30% probability to the customer and 70% probability of 300,000 TL in the end of the reporting period In such a case, the highest probability of realization is the payment of

300.000 TL compensation to fulfil the obligation. However, as the other possible compensation amount is considerably higher than the maximum amount of compensation, the most realistic estimate of the liability at the end of the period will be more than TL 300,000. Consequently, [(300.000 TL x 70%) + (2.000.000 TL x 30%)] = 810.000 TL will be recorded as provision.

19.13 It is possible for the entity to measure the amount of the provision, without the present value calculation, over the amount of the expected expenditure to be fulfilled. However; when the effect of the time value of money is material, the amount of a provision shall be the present value of the amount expected to be required to settle the obligation. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and risks specific to the liability. In addition, the risks specific to the liability shall be reflected either in the discount rate (or rates) or in the estimation of the amounts required to settle the obligation, but not both.

19.14 Gains from the expected disposal of assets shall be excluded from the measurement of a provision. Such gains are recognized in accordance with the section of the related asset at the predicted time.

19.15 Provisions shall be reviewed at the end of each reporting period after initial recognition and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation at the end of that reporting period. Any adjustments to the amounts previously recognised shall be recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount shall be recognised as a finance cost in the item “Interest Expense etc.” in **the Statement of Profit or Loss** in the period it arises.

Reimbursements for Provisions

19.16 Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement can be recognised as a separate asset. However, for recognising reimbursement amount as a separate asset, it shall be virtually certain that reimbursement will be received if the entity settles the obligation. The amount recognized for the reimbursement shall not exceed the amount of the provision. Reimbursement receivable shall be presented as an asset in the Statement of Financial Position and shall not net of the provision amount. Reimbursement receivables are recognised in the Statement of Financial Statement and not offset with the provision amount. However; in the Statement of Profit or Loss the expense relating to a provision may be presented net of the amount recognized for a reimbursement.

Provisions of Termination Indemnities

19.17 As of at the end of the reporting period, employee severance indemnity obligations are estimated and indemnity obligations increases in the current period arising from this estimation are calculated and expensed. Indemnity obligations shall be calculated over the seniority fee of the related period in consideration of factors such as labour force turnover and severance indemnities in previous years.

Contingent Liabilities

19.18 A contingent liability is;

a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

b) A present obligation that arises from past events but is not recognised because:

   (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or

The Amount of The Obligation Cannot be Measured with Sufficient Reliability.

19.19 Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

19.20 The contingent liabilities shall not be presented in the Statement of Financial Position. However, if the probability of an outflow of resources from an operation due to a contingent liability is not too low, a brief explanation of the nature of the contingent liability is provided in the **notes** and information is provided on the possible financial impact of the contingent liability.

Contingent Assets

19.21 A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

19.22 Contingent assets are not recognized in the Statement of Financial Position. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

19.23 If an inflow of economic benefits is probable due to a contingent asset, (in the other words; the probability of occurrence is higher than the probability of non-occurrence) a brief explanation of the nature of the contingent asset is provided in the **notes** and information is provided on the possible financial impact of the contingent asset.

SECTION 20
FOREIGN CURRENCY TRANSLATION

20.1 This section establishes the accounting principles related to foreign currency transactions performed by entities and the principles governing the translation transactions that an entity has to perform if it presents its **financial tables** in a currency other than its **functional currency**. This section also prescribes how entities that prepare **consolidated financial statements** will include the financial status and activity results of their **subsidiaries, joint ventures** and **associates** which have a functional currency other than that of the reporting entity in their **consolidated financial statement**s.

Functional Currency

20.2 Entities shall determine their functional currency in accordance with this section requires. Functional currency, is the currency of the primary environment that the entity generates and spends its **cash**. The functional currency of an entity can be different than Turkish Lira.

20.3 An entity shall consider the following factors in determining its functional currency:

a) Functional currency::

(i) That mainly influences sales prices of the goods and services of the entity (this currency is generally the currency in which sales prices are set and payments are effected), or;

(ii) Of the country whose competitive forces and regulations mainly determine the sales prices of the goods and services

b) The currency that mainly influences labour, raw material and other costs of providing goods and services (this will often be the currency in which generally such costs are set and paid).

20.4 In addition to the factors laid down in paragraph 20.3, the following factors may also provide evidence for determining the functional currency:

a) The currency in which funds from **financing activities** (such as the issuance of **debt instruments** or **equity instruments**) are supplied

b) The currency in which receipts from the entity's **operating activities** are usually denominated.

20.5 Functional currency is the currency that reflects the effect of the transactions, events and conditions related to the entity in the best way. Thus, once the functional currency is determined, it can only be changed if a change occurs in the transactions, events and conditions related to the entity.

20.6 The impact of the change in functional currency shall be recognised **prospectively**. In other words, all items shall be translated into the new functional currency by using the exchange rate at the date of the change.

Accounting Principles Governing Foreign Currency Transactions

20.7 Foreign currency transactions are the transactions an entity conducts in a currency other than the functional currency.

20.8 At initial recognition of foreign currency transactions, the amount in foreign currency shall be translated into the functional currency by using the **spot exchange rate** at the transaction date. Spot exchange rate is the exchange rate **for immediate** delivery. Transaction date is date of initial recognition of the transaction. Initial recognition date shall be determined according to the section in which the transaction is included.

20.9 For practical reasons, it is possible to use an exchange rate approximate to the actual exchange rate at the transaction date. For example, an average exchange rate for a week or a month can be applied to all foreign currency transactions performed in that period. However, if exchange fluctuate significantly, the average exchange rate cannot be used.

20.10 Measurement of **Statement of Financial Position** items in foreign currency at the end of the period depends on whether the items are monetary or non-monetary.

20.11 **Monetary items** are the **assets and liabilities** to be received or paid in a fixed or determinable amount of money and the cash held. The essential feature of a monetary item is the existence of a right to receive or obligation to pay a fixed or determinable number of units of currency. Examples of monetary items are severance payments to be made in cash and other **provisions** and the receivables collectible in cash.

20.12 In addition, the basic essential of a non-monetary item is the absence of a right to receive (or obligation to deliver) a fixed or determinable number units of currency. Examples of non-monetary items are the amounts prepaid for goods and services (e.g.

prepaid rents), **goodwill**, **intangible assets**, **inventories**, **property, plant and equipment**.

20.13 Foreign currency monetary items shall be translated into functional currency by using the spot exchange rate at the end of the period.

20.14 Foreign exchange gains or losses arising on settlement of the monetary item, or translating monetary item at rates different from those at which they were translated on the end of the current period or the date of initial recognition date or at the end of the previous **reporting period** shall be recognised in profit or loss in the period which they arise. Foreign exchange gains or losses on monetary items shall be recognized in the respective item in the Statement **of Profit or Loss** depending on the type of item. For instance, foreign exchange gains and losses on trade receivables and payables shall be recognised as "Other Operating Income" or "Other Operating Expenses"; foreign exchange gains or losses on bank deposits or bank loans shall be included in "Foreign Exchange Gain" or "Foreign Exchange Loss".

20.15 Foreign currency non-monetary items shall be translated into functional currency using the exchange rate at the date of the transaction if they are carried at cost, and using the spot exchange rate at the date when their fair value is determined if they are carried at **fair value** in foreign currency.

Example 1:

An entity with a functional currency of Turkish Lira (TL) measures an item of property, plant and equipment item it purchased for 10.000 US Dollars ($) at cost. The exchange rate at the purchasing date is 1 $ = 2,50 TL, whereas the exchange rate at the end of the period is 1 $ = 2,60 TL. The entity shall recognise the property, plant and equipment by deducting the accumulated depreciation from 25.000 TL. If the entity measures the property, plant and equipment at their revalued amount and determines the fair value of the property, plant and equipment at the end of the period as 12.000 $, then the entity shall recognise the property, plant and equipment as 31.200 TL at the end of the period (12.000 $ x 2,60 TL).

20.16 The value of some non-monetary items are determined by comparing two or more amounts. For example, inventories are recognized as the lower of cost and **net realizable value** at period ends; and property, plant and equipment whose impairment indicators are determined are shown as the lower of **recoverable amount** and **carrying amount**. In such cases, each amount shall be translated into functional currency by using the exchange rate applicable on the date of determination. For example, if net realizable value is determined in terms of impairment test at the end of the period, translation shall be conducted by using the exchange rate at the end of the period.

20.17 Foreign exchange gains or losses on non-monetary items shall be recognized in profit or loss by using the Statement of Profit or Loss in which changes related to the respective item are recognized. However, foreign exchange gains or losses on property, plant and equipment that are measured at their revalued amount shall be recognised in "Revaluation Reserve".

20.18 If there are more than one exchange rates in the translation into functional currency, the exchange rate to be used is the one that would be used in the settlement of **cash flows** related to the transaction or balance if such cash flows were realized at the measurement date. For example, buying rate should be used for the evaluation of the cash held by the entity, and selling rate should be used for the evaluation of the debt related to the payment of a foreign currency loan.

Presentation of Financial Statements in a Currency other than the Functional currency

20.19 If an entity which functional currency is not the currency of a hyperinflationary economy presents its financial statements in a currency other than its functional currency, (e.g., an entity with a functional currency of Euro presenting its financial statements in TL) translation shall be conducted by applying the following procedures:

a) assets and liabilities in the Statement of Financial Position of the current period and the assets and liabilities in the comparative Statement of Financial Position shall be translated at the spot exchange rate at the **reporting date**.
b) **Income**, **expense** and **equity** items including information on comparative periods shall be translated at the exchange rates at the date of transaction..
c) All resulting exchange rate differences shall be recognised in the "Exchange Differences on Translation" item.

20.20 For practical reasons, in the translation of income, expense and equity items; it is possible to use an exchange rate approximate to the actual exchange rate at transaction date. For example; an average exchange rate of the period can be used in the translation of all income, expense and equity items. However, if exchange fluctuate significantly, the average exchange rate cannot be used..

20.21 If the entity's functional currency is the currency of a hyperinflationary economy, the entity shall make an inflationary adjustment in its financial statements in accordance with the section "*Financial Reporting in Hyperinflationary Economies*" before applying the translation method set out in paragraph 20.22 (except for the comparative amounts that are translated into a currency of a non-hyperinflationary economy, see paragraph 20.22 (b)).

20.22 If an entity which has the currency of a hyperinflationary economy as its functional currency presents its financial statements in a currency other than its functional currency, translation shall be conducted by applying the following procedures:

a) Except for the situation specified in (b), all amounts (in other words, assets, liabilities, equity items, income and expenses, including comparatives) shall be translated using the closing rate at the date of the most recent Statement of Financial Position.

b) If the amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be the amounts presented as the current amounts in the financial statements of the previous year (in other words comparative amounts shall not be adjusted for the subsequent changes at the price level or exchange rates).

20.23 When the economy is no longer hyperinflationary and financial statements are no longer adjusted for inflation in accordance with the section *"Financial Reporting in Hyperinflationary Economies*", amounts adjusted for the price levels on the date when the entity ceased to adjust its financial statements for inflation shall be considered as historic cost, and translated into the currency used in the presentation of financial statements.

Translation of Financial Statements of Subsidiaries, Associates and Joint Ventures Whose Functional Currency is Different from the Presentation Currency

20.24 In addition to the factors specified in paragraphs 20.3 and 20.4, while determining the functional currency of the subsidiary, jointly controlled entity or associate of the **parent** and detecting whether the functional currency of such investments are different than the functional currency of the investing entity, the following additional factors shall be considered:

a) Whether the entity conducts its operations as an extension of the investor or independently.

b) Whether the transactions conducted with the investor comprise a major or a minor part of the total operations of the entity.

c) Whether the cash flows generated by the operations of the entity directly affect the cash flows of the investor and are readily available for remittance to it.

d) Whether the cash flows generated by the activities of the entity are sufficient to service existing and normally expected debt obligations without funds being made available by the investor.

20.25 If the parent has a subsidiary, joint venture or associate whose functional currency is different than the presentation currency, they need to be translated into the presentation currency in order to include their financial positions and operational results in the financial statements of the parent by implementing the full consolidation or equity method. In this way, subsidiaries will be included in the financial statements by using full consolidation, and joint ventures and associates by using equity method. As a result, the financial statements of such entities denominated in the presentation currency will have been taken into account.

20.26 In the translation of the financial position and results of subsidiaries, joint ventures and associates with a functional currency other than the currency used in presenting the consolidated financial statements into the presentation currency shall be subject to the translation procedures specified in the "Presentation of Financial Statements in a Currency Other Than Functional Currency". Nevertheless, the following procedures shall be considered alongside the procedures specified in the such section:

a) If the parent does now own all the shares in subsidiaries the portion of foreign exchange gains or losses arising from the translation corresponding to **non-controlling interests** shall be allocated to non-controlling interests in the Consolidated Statement of Financial Position, and the rest shall be shown in "Exchange Differences on Translation" item in the Consolidated Statement of Financial Position.

b) Normal consolidation procedures shall be applied in consolidating the financial position and activity results of subsidiaries, joint ventures and associates with the financial position and activity results of the parent. In this framework, the effects of the transactions conducted between the parent and the subsidiary, joint venture and associate shall be eliminated. However, foreign exchange gains or losses related to the monetary items resulting from transactions conducted between the parent and the subsidiary, joint venture and associate shall not be eliminated.

> **Example 2:**
>
> A parent whose functional currency is Turkish Lira (TL) has lent 10.000 $ to one of its subsidiaries whose functional currency is US Dollars ($). At the transaction date, 1 $ = 2.50 TL; and at the end of the period 1 $ = 2.60 TL. The parent prepares its consolidated financial statements in TL. In the preparation of consolidated financial statements, the receivable component of 26.000 TL in the parent's own accounts and the liability component of 26.000 TL in the subsidiary's accounts arising as a result of translation shall be eliminated. However, the foreign exchange gain of 1.000 TL recognized in the parent's own Statement of Profit or Loss arising in relation to the said monetary item shall not be eliminated and shall be recognised in the Consolidated Statement of Profit or Loss (However, as specified in the following paragraph, if this borrowing is a part of the parent's net investment in the subsidiary, the such foreign exchange gain shall be recognised in the consolidated financial statements in the "Exchange Differences on Translation" item in Equity).

c) The parent may have an amount payable to or receivable from its subsidiaries, joint ventures or associates, the settlement of which is neither planned nor expected in the foreseeable future. Such a monetary item is, in substance, a part of the parent's net investment in those entities. Foreign exchange gains or losses arising from a monetary item comprising part of the parent's net investment in such entities shall be recognised as "Exchange Differences on Translation" in Equity. In case of disposal of the subsidiary, joint venture or associate, the respective exchange rate differences shall not be transferred to consolidated Statement of Profit or Loss, but to the "Accumulated Profit or Loss".

Example 3:

If the settlement of the loan granted by the parent to the subsidiary is neither planned nor expected in the foreseeable future; the foreign exchange gain of 1.000 TL in the parent's own financial statements shall not be recognised in the Consolidated Statement of Profit or Loss but in the Consolidated Statement of Financial Position in Equity as "Exchange Differences on Translation". The parent shall not make any changes to its own financial statements for the said loan. In other words, the foreign exchange gain shall be recognised in the parent's separate financial statements in the Statement of Profit or Loss.

d) The goodwill arising during the acquisition of subsidiaries, joint ventures or associates as well as the and fair value adjustments made in the carrying amount of assets and liabilities shall be accounted for as the assets and liabilities of the subsidiaries, joint ventures or associates. Therefore, such assets and liabilities shall be denominated in the functional currency of the subsidiaries, joint ventures or associates and translated from the spot exchange rate at the end of the period.

e) In case of loss of **control** of a subsidiary, the loss of **joint control** over a joint venture not causing it to qualify as an associate, or the loss of significant influence on an associate not causing it to qualify as a joint venture; the accumulated foreign exchange gains or losses recognized in equity in relation to this investment shall not be considered in the measurement in the gain or loss resulting from the disposal of the subsidiary, joint venture or associate. The foreign exchange gains or losses shall be transferred to "Accumulated Profits/Losses" item without being recognised in profit or loss.

f) In case of partial disposal of a subsidiary without causing loss of control of a subsidiary, the proportional share of the accumulated foreign exchange gains or losses corresponding to the subsidiary in "Exchange Differences on Translation" shall be transferred to the non-controlling shares in the subsidiary.

g) In case of partial disposal of a joint venture not resulting in the loss of joint control, partial disposal of a joint venture causing it to qualify as an associate, or partial disposal of an associate not resulting in the loss of significant influence, the part of accumulated foreign exchange gainsor losses previously recognized in equity in relation to the joint venture or associate corresponding to the decrease in ownership interest shall be transferred to "Accumulated Profit/Loss".

20.27 Entities that measure the subsidiary, joint venture and associate investments they have acquired in foreign currency by using the cost method shall apply the provisions in paragraphs 20.7 - 20.18 in the initial recognition, end of period measurements, partial or complete disposal and in the foreign currency transactions conducted between the entity and these entities.

SECTION 21
BUSINESS COMBINATIONS

21.1 This section establishes the accounting principles related to the measurement and recognition of **assets** acquired, **liabilities** assumed and any **non-controlling interest** in a business combination. This section also establishes the measurement of **goodwill** during and after the business combination.

Scope

21.2 Business combination is the combination of separate businesses or entities in order to constitute a single reporting entity. In a business combination, an entity defined as an acquirer acquires the **control** of the acquiree.

21.3 Business combinations may be achieved in various forms. For example, a business combination may be effected when the acquirer purchases net assets that meet the definition of a business or acquires the **equity interests** of another entity, the unification of two separate entities under the roof of a newly established entity or the disposal and takeover of the acquiree by the acquirer.

21.4 Business combination can be effected by the issuance of **equity instruments**, or transfer other assets or combination of **cash** and **cash equivalent**.

21.5 This section applies to all transactions and events that meet the definition of business combination. However, this section does not apply to the creation of **joint venture**, acquisition of assets and group of assets not meeting the definition of business the subsidiary acquisition of entities which do not prepare **consolidated financial statements**.

21.6 This section does not apply to business combinations effected by entities other than large entities (except for those preparing consolidated financial statements based on prudence) in the form of subsidiary acquisition. Such entities shall recognise their subsidiaries by using cost or equity method in accordance with the section *"Consolidated Financial Statements*". In this case, the assets and liabilities of subsidiaries and any non-controlling interests shall not be recognized in the **financial statements** and no goodwill shall arise from this acquisition. However, such entities shall apply the requirements of this section in business combinations in which they are the acquirer and **parent-** subsidiary relationship does not arise.

Definition of Business Combination

21.7 In order to consider a transaction or event as a business combination, the assets acquired and liabilities assumed need to constitute a business. Business is the integrated set of activities and assets managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to its owners, members or other participants.

21.8 Business consists of inputs, processes applied to those inputs that have the ability to create outputs, and outputs which create or will create economic benefit. Although businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business.

21.9 In cases where the assets of group of assets do not meet the definition of business, the acquirer shall recognise the said acquisition as an asset acquisition. In this framework, cost of acquisition shall be allocated proportional to the **fair value** of identifiable assets and liabilities at the date of acquisition.

Recognition of Business Combinations

21.10 Business combinations shall be recognised by applying the purchase method in the following steps:

a) Identifying the acquirer.

b) Determining the **acquisition date**.

c) Determining the cost of business combination.

d) Measurement and recognition of assets acquired, liabilities assumed and any non-controlling interest.

e) Measurement and recognition of goodwill or negative goodwill.

Identifying the Acquirer

21.11 In all business combinations, one of the combining entities shall be identified as the acquirer. The acquirer is the party that obtains control over the other entity that is party to the combination transaction. Provisions regarding the concept of control are discussed in the section *"Consolidated Financial Statements"*, and the guidance provided in the such section shall be applied in identifying the acquirer. If the guidance in section *"Consolidated Financial Statements*" does not clearly indicate which of the combining entities is the acquirer, other relevant factors (e.g. which of the entities is greater in value, which of the entities transferred cash or other assets, which entity issued entity interests in combinations effected by exchanging equity interests) shall be considered in making that determination.

Determining the Acquisition Date

21.12 Acquisition date is the date on which the acquirer obtains control over the acquiree. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. However, the acquirer might obtain control on a date that is either earlier or later than this date. In this framework, an acquirer shall consider all factors pertaining to obtaining the control in identifying the acquisition date.

Determining the Cost of Business Combination

21.13 The cost of business combination shall be measured as sum of the consideration transferred and the costs incurred directly in relation to the business combination (such as finder's fees; consulting fees, fees related to accounting and valuation.)

21.14 In the business combination the consideration transferred shall be measured fair value at acquisition date. The fair value shall be computed as the sum of the acquisition-date fair values of the assets transferred, liabilities assumed and equity interests issued by the acquirer. The requirements of section *"Financial Instruments and Equity"* regarding the measurement of fair value shall be applied.

21.15 In the computation of the cost of combination in business combinations achieved in stages, acquirer's previously held equity interest in the acquiree shall be considered at its acquisition-date fair value if it can be measured reliably. The difference between the acquisition-date fair value and **carrying amount** of the interests shall be recognized in profit or loss.

21.16 Obtaining additional equity interests of a subsidiary is not a business combination achieved in stages is since the entity has already control over the subsidiary. In case of obtaining additional equity interests of a subsidiary, paragraphs 22.29 and 22.30 of section *"Consolidated Financial Statements"* shall be applied.

21.17 The consideration transferred; can be in the form of cash,non-cash assets, an entity or business of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants.

21.18 The consideration transferred may also include assets and liabilities arising from contingent consideration arrangements. Contingent consideration generally emerges as the obligations of the acquirer to transfer additional assets or equity interests to the previous owners of the acquiree if specified future events or conditions occur (e.g. on condition that the party acquired upon combination has a rate of return on assets higher than a specific rate) pursuant to the combination agreement. However, in accordance with the contingent consideration arrangement, the acquirer may obtain the right to redeem the consideration it previously transferred if specified events or conditions occur in the future.

21.19 If the occurrence of conditions or events causing the contingent consideration is **probable** and contingent consideration amount can be measured reliably, the acquirer shall include the acquisition-date fair value of contingent consideration in the cost of business combination. In this case, if the acquirer has to transfer assets or equity interests in the future pursuant to the contingent consideration arrangement, it shall recognize the future transfers in liability or equity considering the features of such transfers. In addition, if the acquirer has an emerging right to redeem the consideration it previously transferred, it shall classify this right as an asset.

21.20 The contingent consideration that is not recognized because future conditions or events are improbable or fair value cannot be measured reliably, if the conditions are met after the acquisition date (in or after the measurement period), shall be included in the cost of business combination at the fair value at the date of acquisition and the amount of goodwill shall be adjusted. If the events and conditions causing the contingent consideration do not occur or are no longer probable, the contingent consideration included in the business combination on the acquisition date shall be excluded from the cost of combination and the amount of goodwill shall be adjusted.

Measurement and Recognition of Assets Acquired, Liabilities Assumed and Any Non-Controlling İnterests

21.21 On the acquisition date, the acquirer shall recognise, separately from goodwill, the assets and liabilities included in the financial statements of the acquiree prepared in accordance with this standard as of this date. The acquirer shall measure assets and liabilities included in the financial statements of the acquiree prepared in accordance with this standard as of the acquisition date at their acquisition date fair value if they can be measured reliably. However, the acquirer shall recognise the assets and liabilities which cannot be measured reliably at their carrying amounts included in the financial statements of the acquiree as of the acquisition date.

21.22 The acquirer shall not recognise the assets and liabilities which are not included in the financial statements of the acquiree as of the acquisition date.

21.23 The acquirer shall measure and recognize the **deferred tax assets** and **deferred tax liabilities** arising from the assets acquired and liabilities assumed in the business combination in accordance with the section *"Taxes on Income"*.

21.24 Acquirer shall measure the acquisition value of any non-controlling interests proportional to the share of non-controlling parties on the net assets of the acquiree measured and recognized in accordance with paragraph 21.21.

21.25 Assets and liabilities recognised on the acquisition date shall be measured in line with the requirements of the section they are subject to after the acquisition date. Moreover, the **income** and **expenses** in relation to these assets and liabilities shall be determined based on the values of the same determined pursuant to this section in subsequent **reporting periods**.

> **Example:**
>
> The fair value of a depreciable fixed asset x, whose acquisition-date net carrying amount from the acquiree's perspective is 50.000 TL, is determined as 60.000 TL at acquisition date. The acquirer shall calculate depreciation on the fixed asset based on 60.000 TL at reporting period ends subsequent to the acquisition date.

Measurement and Recognition of Goodwill and Negative Goodwill

21.26 An acquirer shall recognise the goodwill arising from the business combination on the acquisition date as an asset. The amount of goodwill is the excess of acquirer's interest in the acquiree's net assets recognised and measured in accordance with this section over the cost of the business combination at acquisition date.

21.27 Goodwill shall be measured by deducting the accumulated amortisation from the amount recognised at initial recognition in subsequent periods. The calculation of the amortisation in relation to goodwill shall be subject to the in accordance with "amortisation" of the section *"Intangible Assets"*. When the **useful life** of goodwill cannot be estimated reliably, goodwill shall be amortised in 10 years. Goodwill shall not be tested for **impairment**.

21.28 When the excess arising where the acquirer's share in the acquiree's net assets recognised and measured according to this section is higher than the cost of business combination is called negative goodwill and the gain recognised in profit or loss on the acquisition date shall be recognised in "Other Income" as "Income from Other Activities". However, before recognising the gain arising as negative goodwill in the financial statements, it shall be revised whether the assets acquired, liabilities assumed, cost of business combination, and in case of a business combination achieved in stages the equity interests previously held in the acquiree have been measured properly.

Measurement Period

21.29 The acquirer shall complete the accounting for the business combination as of the acquisition date without delay.

21.30 If, despite all efforts, accounting procedures are incomplete by the end of the reporting period in which the business combination occurs, the acquirer shall recognize provisional amounts for the items for which the accounting is incomplete. After recognising the provisional amounts, the acquirer may obtain new information about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurements made as of that date.

21.31 The acquirer shall adjust the provisional amounts related to the assets and liabilities recognized on the acquisition date **retrospectively** in the framework the information on condition that such information has been obtained within twelve months from the acquisition date, and in return the amount of goodwill shall be increased and decreased. Moreover, information pertaining to the previous period presented comparatively in the framework of such information may be adjusted (e.g. adjusting the **depreciation expense** calculated for the previous period according to the provisional amount if the provisional amount recognised for an asset changes in the framework of new information) if it is necessary to do so.

21.32 Within the framework information obtained after the twelve-month period from the acquisition date, shall not be made any adjustments to the amounts related to the business combination except in order to correct an error in accordance with the section "*Accounting Policies, Estimates and Errors*"

21.33 The acquirer shall consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the acquisition date.

Business combinations of entities under common control

21.34 A business combination involving businesses or entities under common control is a business combination in which all of the combining businesses or entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

21.35 Business combinations under common control shall be recognised in accordance with the following hierarchy:

a) Since business combinations under common control are accounted for as the combination of rights, financial statements shall not include goodwill.

b) When applying the combination of rights method, financial statements should be restated as if the combination occurred as of the beginning of the reporting period in which common control is created, and presented comparatively from the beginning of the reporting period in which common control is created.

c) Since it is more appropriate to view the recognition of business combinations under common control from the parent's perspective, financial statements should be restated as they would be prepared at the date when the entity that holds control of the **group** obtains control over the entities under common control and in subsequent periods pursuant to this Standard, including financial statements combination accounting.

d) In order to eliminate a possible asset- liability mismatch resulting from the business combination under common control, "Effect of Business Combinations under Common Control" should be used as an equalizing account.

SECTION 22
CONSOLIDATED FINANCIAL STATEMENTS

22.1 This section establishes the definition of **subsidiary** and the accounting principles regarding these investments and the principles the preparation of **consolidated financial statements**.

Subsidiary Definition

22.2 Subsidiary is an entity, including an unincorporated entity such as a partnership, that is **controlled** by another entity (known as the **parent**). Thus, an entity which has one or more subsidiaries is a parent. The group of entities comprising the parent and all its subsidiaries is called a **group**.

22.3 Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

22.4 An investor is presumed to have control when the investor owns more than half of the voting rights of the entity unless it is clearly specified otherwise. Even when the investor owns half or less than half of the voting rights of the investee, the investor is presumed to have control over this entity in the presence of the following situations;

a) The investor has control over more than one half of the voting rights by virtue of an agreement with other investors, or

b) The investor has the power to govern the financial and operating policies of the entity under a statute, an agreement or the articles of association of the investee,

c) The investor has the power to appoint or remove the majority of the members of the board of directors or other governing body which establishes control over the investee; or

d) Majority of the board of directors or other executive body which executes control of the investee and have been on duty for the current and prior **reporting periods** until consolidated financial statements are prepared have been appointed by the use of voting rights by the investor. But in this case, a third party needs to own more than half of the voting rights of the entity or possesses the rights specified in paragraphs (a), (b) and (c).

22.5 In determining whether the investor owns more than half of the voting rights or possesses the rights specified in paragraph 22.4 (a), (c) or (d); the voting rights and the rights to appoint and remove held by the investor as well as voting rights and rights to appoint and remove held by the investor's other subsidiaries and by persons who act on account of the investor or its subsidiaries but in their own name shall be considered. Nevertheless, the total rights determined shall be reduced to rights arising from the following shares:

a) Shares held on account of a party other than the investor and its subsidiaries.

b) Shares held as collateral, if rights related to such shares are used in line with the instructions taken.

c) Shares held due to the granting of a loan in the framework of usual commercial activities if voting rights are used for the benefit of the guarantor, .

22.6 Moreover, in determining whether the investor owns more than half of the voting rights or possesses the rights specified in paragraph 22.4 (a) or (d), rights arising from shares held by the investee or its subsidiaries, and by persons acting on account of the investee or its subsidiaries but in their own capacity shall not be considered in the assessment of the total voting rights of the investee.

22.7 Control can also be established by possessing exercisable options or convertible **financial instruments** (potential voting rights) or through an agent who has the ability to direct the operations of the controlling entity for the benefit of the entity. The investor shall consider the potential voting rights held by itself and by other parties in the assessment of whether it has control over the investee. Potential voting rights are rights that have the potential to obtain voting rights in an entity.

22.8 In cases where the investor establishes a special purpose entity (SPE) to accomplish a limited objective (e.g., to effect a **lease**, research and development activities or securitisation of **financial of assets**), if the relationship between the investor and the SPE indicated that the SPE is controlled by the respective investor, the SPE shall also be considered as a subsidiary. SPE's are generally created by means of an arrangement or contract that includes restrictive provisions in relation to their activities.

22.9 In addition to the conditions specified in paragraph 22.4, the following situations may show that the investor has control over the SPE:

a) Conducting the SPE's activities on behalf of the investor to satisfy specific needs of the investor.

b) Although the authority to make daily decisions is transferred, the investor has ultimate decision making power in relation to the activities of the SPE.

c) The investor has a right to obtain the majority of the benefits arising from SPE's activities and therefore may be exposed to the risk related to SPE's activities

d) The investor continues to bear a large part of the risk or residual value risks arising from the owning the SPE or the assets of the SPE.

Recognition of Investments in Subsidiaries

Non-Large Entities

22.10 Entities other than the large entity are not obliged to prepare a consolidated financial statement. Nevertheless, such entities may elect to prepare their consolidated financial statements.

22.11 However, even when the parent is not a large entity, if any of its subsidiaries it owns directly or indirectly meets the definition of a Public Interest Entity prescribed in the Decree in the Force of Law No. 660 and is not a subsidiary specified in paragraph 22.18, it prepares consolidated financial statements. In this case, requirements pertaining to large entities,including exemptions related to the preparation of consolidated financial statements, shall be applied by these entities.

22.12 Entities that do not prepare consolidated financial statements shall account fort their investments in their subsidiaries using cost or the equity method. In this framework, such entities shall apply paragraphs 10.7-10.8 of section *"Investments in Associates"* in the **measurement** of their subsidiaries at initial recognition, and paragraphs 10.9-10.21 of the same section in the subsequent measurements comparatively. For the purposes of applying these paragraphs, "**associate**" shall be considered as "subsidiary", and "significant influence" shall be considered as "control".

22.13 If an investment in a subsidiary later qualifies as an associate, **joint venture** or financial instrument, paragraphs 10.17, 10.18, 10.21(j), 10.21(k) and 10.21(l) of the section *"Investments in Associates"* shall be applied by comparatively.

Large Entities

22.14 Large entities shall consolidate its subsidiaries and issue its consolidated financial statements applying the consolidation procedures prescribed in this section (according to full consolidation method). Consolidated financial statements **financial statements** of a group in which the **assets**, **liabilities**, **equity**, **income**, **expenses** and **cash flows** of the parent and its subsidiaries are presented as those of a single economic entity.

22.15 Large entities shall apply the requirements of the section *"Business Combinations"* in accounting for the first acquisition of the subsidiary.

22.16 However, if the parent, being a large entity, is a subsidiary of another entity itself, it shall not prepare consolidated financial statements if the conditions in (a) and (b) are both satisfied:

a) Any ultimate parent entity operating in Turkey which the parent is a subsidiary of has publicly presented its consolidated financial statements pursuant to TFRS and this Standard.

b) The ultimate parent operates in Turkey and

   (i) wholly owns the shares of the parent's (in this framework, shares held by the members of the board of directors of the parent to satisfy a legal obligation or a provision in the articles of association shall be ignored) or

   (ii) owns 90% or more of the parent's shares and other shareholders consent to the parent not presenting consolidated financial statements.

22.17 A parent that does not prepare consolidated financial statements pursuant to the exemption granted in paragraph 22.16 shall disclose in its notes the name and headquarters of the ultimate parent which presents consolidated financial statements specified in paragraph 22.16 (a) and provides information on its exemption from the obligation to prepare consolidated financial statements.

22.18 Consolidated financial statements shall include all subsidiaries of a parent. However, the following subsidiaries are not required to be consolidated although they meet the definition of a Public Interest Entity prescribed in the Decree in the Force of Law No. 660:

a) The subsidiary is not significant either on its own or when assessed in combination with other subsidiaries,

b) In very rare cases, the information required for the preparation of consolidated financial statements pursuant to this Standard cannot be obtained without undue cost or effort or such information can be obtained with a delay,

c) Persistent serious restrictions prevent the parent from exercising its rights on the subsidiary,

d) The subsidiary is acquired and held for disposal within one year from the **acquisition date**. But if the subsidiary previously not consolidated in accordance with this paragraph cannot be disposed of within one year from the acquisition date, (in other words the parent continues to control the subsidiary) this subsidiary shall be consolidated from the acquisition date. Moreover, if the acquisition date falls within a previous reporting period, the financial statements of relevant periods shall be adjusted accordingly. However, if the disposal is delayed due to a cause which cannot be controlled by the parent and there is sufficient evidence at the end of the period that the parent has a continuing sale plan for the disposal of the subsidiary, then the parent continues not to consolidate this subsidiary.

22.19 Subsidiaries which are not included in consolidated financial statements in accordance with 22.18 shall be recognized and measured pursuant to the section *"Financial Instruments and Equity"* . However, if the parent continues to have significant influence over a subsidiary which it does not consolidate due to the restrictions in paragraph 22.18 (c), it shall recognise and measure this subsidiary as an associate applying *"Investments in Subsidiaries"*.

22.20 The parent shall not prepare consolidated financial statements if it does not have any subsidiary other than those specified in paragraph 22.18. The entity shall disclose this issue.

Separate Financial Dtatements

22.21 Parents which prepare consolidated financial statements are also required to prepare **separate financial statements**. But such entities are not required to present notes in relation to their separate financial statements.

22.22 Entities that do not prepare consolidated financial statements by exercising the exemptions specified in paragraphs 22.16 and 22.20 shall only present their separate financial statements. Such entities are required to present notes in relation to their separate financial statements. In this case, all disclosures given in *"Notes"* under "Disclosures by All Entities" and "Disclosures by Large Entities" shall be provided. Furthermore, the entity shall disclose the reason why it has not prepared consolidated financial statements and the reason, if any, why the subsidiaries not consolidated within the framework the exemption granted in paragraph 22.20 have not been consolidated.

22.23 In separate financial statements, subsidiaries shall be measured applying cost or equity method as per paragraph 22.12.

22.24 The parent should apply the same accounting policies in its separate financial statements and consolidated financial statements.

Consolidation Procedures

22.25 The following procedures shall be conducted in the preparation of consolidated financial statements:

a) Overlapping items of assets, liabilities, equity, income, expenses and cash flows in the financial statements of the parent and its subsidiaries shall be added up and combined line by line.

b) The **carrying amount** of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary shall be eliminated (offset).

c) Intragroup balances and transactions shall be eliminated (offset) in full. In this framework, intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group, as well as profits or losses resulting that are recognised in assets, (such as **inventories** and **property, plant and equipment**), are eliminated in full. Intragroup losses may indicate an **impairment** that requires recognition in the consolidated financial statements.

d) After the elimination of intragroup transactions between consolidated subsidiaries, the proportion of the net profit or loss for the period corresponding to **non-controlling interests** shall be determined. The proportion of net profit or loss for the period allocated to the parent and non-controlling interests shall be shown separately in **Consolidated Statement of Profit or Loss** under "Net Profit or Loss for the Period" which shows the net profit or loss for the period pertaining to the group. Moreover, the proportion of gains and losses recognised for consolidated subsidiaries in equity for the current period (e.g., "Revaluation Reserve", "Foreign Currency Translation Differences" and "Hedging Reserve" items) corresponding to non-controlling interests shall be determined and these amounts shall be disclosed in the notes for each item.

e) The proportion of net assets of consolidated subsidiaries corresponding to non-controlling interests shall be determined. (in other words, amounts that will be recognised in consolidated **Statement of Financial Position** in relation to non-controlling interests). Such amounts comprise the sum of:

(i) The amount of non-controlling interests calculated from the acquisition date in accordance with the section "Business Combinations"

(ii) Amount of changes in equity which occur after the acquisition date attributed to non-controlling interests.

Non-controlling interests shall be recognised as "Non-controlling interests" in equity and presented separately from the amount of equity allocated to the parent's owners in the Consolidated Statement of Financial Position.

The proportion of the net profit or loss for the period, gains or losses recognised in equity and changes in equity corresponding to the parent and non-controlling interests shall be determined considering existing interests. Potential voting rights such as non-exercised or non-converted options and convertible financial instruments are not considered in the assessment of such amounts.

Applying the Same Accounting Policies

22.26 Same Accounting Policies shall be adopted for similar transactions and events in consolidated financial statements. If a member of a group adopts an accounting policy other than the accounting policy adopted in consolidated financial statements in similar transactions and events, necessary adjustments shall be made to the entity's financial statements during the preparation of consolidated financial statements.

Same Reporting Date

22.27 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. For this purpose, if the end of the reporting period of the subsidiary is different than that of the parent, the subsidiary shall prepare its financial statements for consolidation purposes from the end of the parent's reporting period. However, if it is impracticable for the subsidiary to prepare financial statement from the same date as the financial statements of the parent, the parent shall use the most recent financial statements of the subsidiary available and make adjustments for the effects of significant transactions and events that occur between the ends of the two reporting periods. In all cases, the difference between the ends of the reporting periods of the parent and its subsidiaries cannot be more than three months. When the financial statements of the parent and its subsidiaries used in the preparation of consolidated financial statements do not bear the same date, this fact and its reasons shall be disclosed in the notes.

Measurement

22.28 An entity shall include the income and expenses of a subsidiary in the consolidated financial statements from the date when it obtains control until the date when it loses control of the subsidiary. In the calculation of the subsidiary's net profit or loss for the period for the purpose of consolidation, income and expenses related to the assets and liabilities of the subsidiary at the acquisition date shall be determined based on the **fair value** of such assets and liabilities at the acquisition date. In this framework, the **depreciable** assets of the subsidiary for the period shall be calculated based on their fair values at acquisition date.

Changes in the Parent's Ownership Interest in the Subsidiary

Continuation of Control

22.29 Changes in ownership interests of a parent in a subsidiary that do not result in a loss of control shall be accounted for as equity transactions.

22.30 In this case, carrying amounts related to the parent's interests and non-controlling interests shall be adjusted to reflect the changes in their respective interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the parent. In other words, this difference shall not be recognised as a gain or loss in Statement of Profit or Loss, but in the "Share Premiums" in the Statement of Financial Position. This accounting procedure does not result in any changes in the subsidiary's assets and liabilities including any **goodwill.**

Loss of Control

22.31 A parent might lose control of a subsidiary due to a change in interests or without a change in interests in another form.

22.32 A parent shall perform the following procedures when it loses control of a subsidiary:

a) Derecognise the assets and liabilities of the former subsidiary including any goodwill at their carrying amounts at the date when control is lost.

b) Derecognise any non-controlling interests in the former subsidiary at their carrying amounts at the date when control is lost.

c) Recognise the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control.

d) Recognise any interests retained in the former subsidiary at its fair value at the date when control is lost, if the fair value can be measured reliably. If fair value at the date when control is lost cannot be measured reliably, retained interest shall be recognised at its carrying amount (calculated based on the amounts recognised in Consolidated Statement of Financial Position for the assets and liabilities of the former subsidiary including goodwill.) If the interests retained in the entity qualify as a financial instrument falling in the scope of *"Financial instruments and Equity"*, the fair value or carrying amount of these interests at the date when control is lost shall be considered as the transaction cost on their initial recognition as a financial investment. If the retained interests in the entity qualify as an investment in an associate or joint venture, the fair value or carrying amount of such interests at the date when control is lost shall be considered as the cost of these interests on initial recognition.

e) The sum of amounts recognised in accordance with (c) and (d) less the proportion of the carrying amount of net assets of the subsidiary (based on the amounts recognised in the Consolidated Statement of Financial Position for the assets and liabilities of the former subsidiary including goodwill) corresponding to the parent's ownership interest shall be recognised in profit or loss.

f) Transfer the amounts recognised in equity in relation to the investment in the subsidiary (e.g., in "Revaluation Reserve", "Foreign currency Translation Differences" and "Hedging Reserve") to "Accumulated Profit/Loss".

SECTION 23
TAXES ON INCOME

23.1 This section establishes the principles regarding the recognition of **taxes on income**.

23.2 Taxes arising in relation to transactions and events recognised the financial statements of an entity for current and subsequent periods should be recognized. Recognized tax is comprised of **current tax** and **deferred tax** amounts.

23.3 Large entities are required to present deferred tax amounts in their consolidated and **separate financial statements**. However, other entities are not required to present deferred tax amounts in their financial statements. Nevertheless, for entities that prepare **consolidated financial statements** on a voluntary basis it is necessary to present deferred tax amounts in consolidated financial statements but discretionary in separate financial statements.

23.4 In the computation of deferred tax in hyperinflationary economies, the additional requirements prescribed in paragraph 25.24 of the section *"Financial Reporting in Hyperinflationary Economies"* shall be applied.

Scope

23.5 For the purposes of this section, taxes on income shall refer to all domestic and foreign taxes computed on **taxable profit**. Furthermore, tax amounts arising from profit shares obtained from investment in **equity instruments, interest income**, **royalty income** and other similar income and tax amounts to be paid by the counter party to tax administrations on behalf of the entity in the form of withholding shall also be considered in the scope of taxes on income.

23.6 Taxes that are not calculated based on profit shall not be considered in the scope of this section. For instance, value added tax, income taxes paid on the remuneration of employees, social security premiums and stamp duty shall not be defined as taxes paid on income for the purposes of this standard.

23.7 This section does not apply to the recognition of **government grants** or investment tax credits. However, this section applies to the recognition of temporary differences that may arise from such **government grants** or **tax credits**.

Current Tax

23.8 Current tax refers to the tax payable over the taxable profit for the current period. The unpaid portion of current tax is recognised in **Statement of Financial Position** under "Taxes and Similar Liabilities Payable". The amount of tax already paid in respect of current and prior periods that exceeds the amount of current shall be recognised separately in "Taxes and Other Expenses Paid in Advance".

23.9 Current tax shall be calculated over the amount measured pursuant to tax laws and tax rates applicable for the period. Amounts recognized in the statement of financial position shall not be discounted.

23.10 **Assets** and **liabilities** recognised in the Statement of Financial Position in relation to current tax shall only be offset under the following circumstances:

a) There is a legally enforceable right to offset and

b) There is an intention is to make a payment over the amount offset.

23.11 Current tax shall be recognised in the **Statement of Profit or Loss** as "Tax Expense". However, if the current tax results from transactions and events not recognised in profit or loss in a different period (in other words, recognised in **equity**), the arising current tax amount shall be recognised in equity item ("Revaluation Reserve", "Foreign currency Translation Differences" and "Hedging Reserve") which reflects the effect of the said transactions and events.

Deferred Tax

Recognition

23.12 Deferred tax is the taxes payable or recoverable in future periods as a result of the settlement or recovery of the **carrying amount** of assets and liabilities and the carryforward of deductible accumulated loss and tax credits.

23.13 A **deferred tax asset** or **deferred tax liability** shall be recognised in financial statements in relation to taxes recoverable and payable in future periods due to past transactions and events. Deferred taxes arise from the differences between carrying amounts of assets and liabilities recognised in the statement of financial position and their **tax base,** and the carryforward of unused accumulated loss and unused tax credits

Tax Base

23.14 Tax base is the value attributed to an asset or liability for the purposes of tax legislation.

23.15 The **tax base of an asset** is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If future economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

Example 1: A machine costs 100. For tax purposes, depreciation of 30 has been allocated for the current and previous periods. The remaining cost of the machine will be deductible in future periods, either as depreciation or through a deduction on disposal. Revenue generated by using the machine and the profit to be generated upon disposal of the machine are taxable. Any loss on disposal will be deductible for tax purposes. In this case, the tax base of the machine is 70**.**
Example 2: Trade receivables have a carrying amount of 100. The related revenue has already been included in taxable profit (tax loss). The tax base of the trade receivables is 100.

23.16 The **tax base of a liability** is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of **revenue** which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

Example 3: Short term liabilities include accrued expenses with a carrying amount of 100. The related expense will be deducted from the tax base when settled. The tax base of the accrued expenses is nil.
Example 4: Short term liabilities include accrued expenses with a carrying amount of 100. The related expense has already been deducted from the tax base when settled. The tax base of the accrued expenses is 100 TL.

23.17 Some items have a tax base but are not recognised as assets and liabilities in the statement of financial position. For example, research costs are recognised as an **expense** in determining **accounting profit** in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (**tax loss**) until a subsequent period. The difference between the tax base of the research costs, being the amount the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset

Temporary Differences

23.18 Temporary differences refer to the differences between the carrying amount of an asset or liability in the statement of financial position and their tax base. There are two types of temporary differences:

a) Taxable temporary differences: temporary differences that will be added to the tax base in future periods when the carrying amount of the asset or liability is recovered or settled

b) Deductible temporary differences: temporary differences that will be deducted from the tax base in future periods when the carrying amount of the asset or liability is recovered or settled

23.19 In consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to the tax returns of each entity in the group.

23.20 The following cases can also result in temporary differences:

a) The assets acquired and liabilities assumed in a **business combination** are recognised at their **fair values** in accordance with the section "*Business Combinations*" but no equivalent adjustment is made for tax purposes. In this case, amount of goodwill shall be adjusted according to the deferred tax asset or lability.

b) **Assets** are revalued, but no equivalent adjustment is made for tax purposes. For example, this Standard permits or requires the fair value of some assets to remeasured or revalued (e.g. revaluation of **property, plant and equipment** or measurement of investment **property** at fair value).

c) **Goodwill** arises in a business combination.

d) The tax base of an asset or liability on initial recognition differs from its initial carrying amount,

e) The carrying amount of investments in **subsidiaries,** branches and **associates** or interests in **joint ventures** becomes different from their tax base.

Taxable Temporary Differences

23.21 A deferred tax liability shall be recognised for all taxable temporary differences. However a deferred tax liability shall not be recognised for taxable temporary arises from:

a) The initial recognition of goodwill; or

b) The initial recognition of an asset or liability in a transaction that is not a business combination; and affects neither accounting profit nor taxable profit (tax loss) at the time of the transaction

23.22 Some temporary differences arise when income or expense is included in accounting profit and in taxable profit in different periods. Such temporary differences are often described as timing differences. The following are examples of taxable timing differences of this kind which result in deferred tax liabilities:

a) Interest revenue is included in accounting profit on a time proportion basis but may be included in taxable profit when collected in **cash**. The tax base of such interest receivable recognised in the statement of financial position but not collected in cash is nil because the revenues do not affect taxable profit since they have not been collected in cash.

b) **Depreciation** used in determining the accounting profit (loss) may differ from that used in determining taxable profit (loss). The difference between the carrying amount of the asset and its tax base is a temporary difference. When the depreciation fixed for the purposes of tax legislation is more than the depreciation fixed for accounting purposes, a taxable temporary difference arises, resulting in a deferred tax liability. In the opposite situation, a deductible temporary difference arises, resulting in a deferred tax asset.

Deductible Temporary Differences

23.23 A deferred tax asset shall be recognised for all deductible temporary differences provided that it is **probable** that sufficient taxable profit will be available against which the deductible temporary difference can be utilised. However, a deferred tax asset shall not be recognised for temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit (tax loss).

23.24 The following are examples of deductible temporary differences resulting in a deferred tax asset:

a) Termination benefits are considered as expense in determining accounting profit for the periods when service is provided by the employee, but deductible in determining taxable profit when they are paid to the employee for tax purposes. In this case, a deductible temporary difference arises between the carrying amount of the liability and its tax base. Such a deductible temporary difference results in a deferred tax asset as economic benefits will flow to the entity in the form of a deduction from taxable profit when such payments are made to the employees.

b) Certain assets may be carried at fair value and this value may be lower than the amount foreseen by the tax legislation for the related asset. In such cases, a deductible temporary difference arises if the tax base of the asset exceeds its carrying amount

23.25 Deductible temporary differences can be deducted in determining taxable profits of future periods in which these differences will be reversed. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised

23.26 It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority which are expected to reverse:

a) In the same period as the expected reversal of the deductible temporary difference; or

b) In periods into which a tax loss arising from the deferred tax asset can be carried forward.

23.27 When there are insufficient taxable temporary differences of the entity relating to the same taxation authority to utilize deductible temporary differences, a deferred tax asset shall be recognised in the presence of either of the following situations:

a) It is probable that the entity will have sufficient taxable profit relating to the same taxation authority in the same period as the reversal of the deductible temporary difference (or in periods into which a tax loss arising from the deferred tax asset can be carried forward). In evaluating whether it will have sufficient taxable profit in future periods, an entity ignores deductible temporary differences that may arise in future periods, because the deferred tax assets arising from possible deductible temporary differences in the future will require taxable profit in subsequent periods in order to be utilised; or

b) Tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.

Unused Accumulated Tax Loss and Tax Credits

23.28 A deferred tax asset shall be recognised for the accumulated tax losses and tax credits that have not yet been deducted if it is probable that a sufficient amount of taxable profit will be available in a future period against which such losses and credits can be offset. A deferred tax asset shall not be recognised for the accumulated tax losses and tax credits if it is not probable that a sufficient amount of taxable profit will be available in a future period from which such losses and credits can be deducted.

23.29 The existence of tax loss of an entity is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only if the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the such loss and credits can be offset.

23.30 An entity considers the following criteria in assessing the probability that taxable profit will be available against which the accumulated tax loss or tax credit can be used:

a) Whether the entity has sufficient taxable temporary differences relating to the same taxation authority from which the unused accumulated tax losses or tax credits can be deducted before they expire,

b) Whether it is probable that the entity will have taxable profits before unused accumulated tax losses or tax credits expire,

c) Whether unused accumulated tax losses result from causes that are likely to recur; and,

d) Whether tax planning opportunities are available to the entity that will create taxable profit in the periods in which the entity wants to use accumulated tax losses or tax credits.

Reassessment of Unrecognised Deferred Tax Assets

23.31 At the end of each **reporting period,** an entity shall reassess deferred tax assets that have not been recognised in previous periods. Previously unrecognised deferred tax asset shall be recognised to the extent that it is probable that sufficient taxable profit will be available in the future to recover the deferred tax asset.

Investments in Subsidiaries, Associates and Joint Ventures

23.32 Temporary differences may arise due to the difference between the carrying amount of investments in subsidiaries, associates and joint ventures and their tax base (generally the cost). Such differences may arise in a number of cases, for example:

a) The existence of undistributed profits of subsidiaries, associates and joint ventures,

b) Changes in foreign exchange rates when a **parent** and its subsidiary are based in different countries; and,

c) Reduction of the carrying amount of an investment in an associate to its **recoverable amount**.

Temporary differences in separate and consolidated financial statements may be different in cases where investments are recognised differently in separate and consolidated financial statements.

23.33 A deferred tax liability shall be recognised for all taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except to the extent that both of the following conditions are met:

a) The entity (parent, investor or joint venturer) is able to control the timing of the reversal of the temporary differences and

b) It is probable that the temporary difference will not reverse in the foreseeable future.

23.34 For all deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, a deferred tax asset shall be recognized only to the extent that both of the following situations are probable:

a) Temporary differences will reverse in the foreseeable future and

b) Taxable profit will be available against which the temporary differences can be utilised.

Measurement of Deferred Tax

23.35 Deferred tax liability or asset shall be measured pursuant to the tax laws and tax rates expected to be applicable when timing difference reverses.

23.36 However, non-depreciable assets measured at its revalued amount in accordance with the section "*Property, Plant and Equipment*" and the deferred tax related to investment property measured at fair value in accordance with the section "*Investment Property*" shall be computed by using the tax rate applicable to the sale of such assets. Nevertheless, if the investment property measured at fair value have limited **useful life** and all or almost all of its economic benefits are expected to be exhausted by the entity, the tax rate applicable to the sale of such assets shall not be used in the measurement of the deferred tax.

23.37 Deferred tax liabilities and assets shall not be discounted.

Presentation

23.38 Deferred tax asset shall be recognised in Statement of Financial Position in the class of fixed assets as “Deferred Tax Asset”; and deferred tax liability in the class of long term liabilities as “Deferred Tax Liability” separately. Deferred tax liability or asset cannot be presented in current assets or short term liabilities.

23.39 Deferred tax assets and liabilities can only be offset in the presence of the following situations:

a) There is a legally enforceable right to offset the amounts and

b) The intention is to make a payment over the amount offset.

23.40 Changes in a deferred tax liability or asset shall be reported as **tax expense**/income. Deferred tax expense/income shall be presented in Statement of Profit or Loss in item “Tax Expense”. However, if deferred tax expense/income arise as a result of transactions or events not recognised in profit or loss in the same or a different period (in other words recognised in equity), the associated deferred tax amount shall be recognised in the equity item in which the effects of the relevant transactions and events are recognised.

> **Example 5:**
>
> An entity measures an item of property, plant and equipment with a net carrying amount of 100.000 TL at its revalued amount. The entity revalued the said item of property, plant and equipment at the end of the period as 150.000 TL. If it is assumed that the said revaluation difference cannot be taxable in the current period pursuant to tax laws, the entity shall recognise the deferred tax expense related to the timing difference arising on the revaluation increase as a deduction in the item “Revaluation Reserve”.

Withholdings On Dividend Payments

23.41 When **dividends** are paid out to shareholders, a portion of the dividends may be required to be paid to taxation authorities on behalf of shareholders. The amount to be charged to equity as dividends includes such amounts paid or payable to taxation authorities. Amounts payable by the entity to taxation authorities on behalf of shareholders shall be presented in the Statement of Financial Position in item “Taxes and Similar Liabilities Payable”.

SECTION 24
INTERIM FINANCIAL REPORTING

24.1 This section establishes the minimum content of the financial reports presented in financial **reporting periods** (**interim periods**) shorter than one year and lays down the principles for the **measurement** and recognition to be applied in **Interim Financial Reports**.

24.2 This Standard does not impose an obligation for entities to prepare Interim Financial Reports. This section shall be implemented by entities which are required in accordance with legistation or elect to prepare Interim Financial Reports.

Content of Interim Financial Reports

24.3 Interim Financial Reports shall be prepared clearly and understandably in full accordance with requirement of this section. Interim Financial Reports are intended to contain all the information that is **relevant** to understanding an entity's financial position and performance during the interim period.

24.4 Entities which are required or elect to prepare **consolidated financial statements** shall prepare interim consolidated financial statements if they will conduct interim reporting.

24.5 In Interim Financial Reports, an entity may present financial statements which include all the information it is required to present in its annual **financial statements** or present condensed financial statements the minimum content of which is prescribed by this section for the sake of timeliness and cost.

24.6 Entities that wish to present financial statements which include all the information it is required to present in its annual financial statements in its Interim Financial Reports shall prepare its financial statements in line with the form and content specified in section *"The Conceptual Framework and Financial Statements*". However, measurement and recognition shall be applied in accordance with the requirements of this section (*"Interim Financial Reporting"*). Moreover, the financial statements shall include disclosures required by this section as well as other disclosures prescribed by this Standard.

24.7 Entities that wish to present condensed financial statements as interim reporting shall provide a minimum of Condensed **Statement of Financial Position**, Condensed **Statement of Profit or Loss**, Condensed **Statement of Cash Flows**, Condensed **Statement of Changes in Equity** and other disclosures prescribed by this section. Condensed financial statements shall include, at a minimum, the titles included in the most recent financial statements and subtotals. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.

Disclosures to be Included in Interim Financial Reports

24.8 The following disclosures are required to be made in Interim Financial Reports. These disclosures shall be accompanied by additional disclosures that are required to enable the users of financial statements to understand the financial position and performance of the entity pertaining to the interim period. Disclosures to be made in Interim Financial Reports shall be based on the period between the beginning of the current annual reporting and the end of the current interim period.

a) Disclosure stating that the entity has prepared its Interim Financial Reports as required by this section and the Interim Financial Reports are in full compliance with the requirements of this Standard.

b) A statement that the same **accounting policies** and methods of computation are followed in the interim financial statements as the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.

c) Disclosures about the seasonality or cyclicality of interim operations.

d) The nature and amount of items affecting **assets, liabilities, equity,** cash flows or net income for the period and that are unusual because of their nature, size or incidence.

e) The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

f) Information regarding the issues, repurchases and repayments of debt and **equity securities**.

g) Dividends paid (per share or aggregate) separately for ordinary shares and other shares.

h) Events after the interim period that have not been recognised in the interim financial statements.

i) The effect of changes in the composition of the entity during the interim period, including **business combinations**, acquiring a **subsidiary**, losing **control** of a subsidiary and restructuring.

j) The following information for each business combination that is achieved in the interim period:

(i) Overview of the acquiree,

(ii) **Acquisition date**,

(iii) The rate of voting rights acquired,

(iv) Cost of combination and cost components,

(v) Amount of assets and liabilities assumed at acquisition date including **goodwill** included in each line item of the Statement of Financial Position,

(vi) The measurement method and amount of goodwill or negative goodwill.

k) Significant assumptions underlying the valuation technique when the amount of **financial instruments** measured at **fair value** is estimated using a valuation technique.

l) Rationale for any financial instruments that could not be measured at fair value because their fair value could not be measured reliably.

24.9 The events and transactions that are significant shall be disclosed in its interim financial report for an understanding of the changes in financial position and activity results of the entity since the end of the most recent annual reporting period. The events and transactions for which disclosures would be required if they are significant include, but are not limited to, the following:

a) Allocation and reversal of **impairment for inventories**,

b) Recognition of a loss from the impairment of **financial assets, property, plant and equipment, intangible assets,** or other assets, and the reversal of such an impairment loss

c) The reversal of any **provisions** set aside for the costs of restructuring,

d) Acquisitions and disposals of property, plant and equipment,

e) Commitments for the purchase of property, plant and equipment;

f) Litigation settlements,

g) Corrections of errors in the financial information reported in prior periods,

h) Changes in the business or economic circumstances that affect the fair value of the entity's financial assets and **financial liabilities** that are recognised at fair value or **amortised cost**,

i) Defaults in the payment of loans,

j) Related party transactions,

k) Transfers between levels of the fair value hierarchy used to measure the fair value of financial instruments,

l) Changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and

m) Changes in **contingent assets** and **contingent liabilities**.

Periods for Which Interim Financial Statements Are Required To Be Presented

24.10 Interim reports shall include interim financial statements for the following periods:

a) Statement of financial position as of the end of the current interim period and a comparative statement of financial position as of the end of the immediately preceding financial year.

b) Statement of Profit or Loss for the current interim period, and Statement of Profit or Loss cumulatively for the current financial year to date. Each of these statements shall be accompanied by a comparative statements of profit or loss for the respective interim periods of the immediately preceding annual reporting period year on year.

c) Statement of Cash Flows cumulatively for the current annual reporting period to date. This statement shall be accompanied by a comparative Statement of Cash Flows for the same interim period of the immediately preceding annual reporting period.

d) Statement of Changes in Equity cumulatively for the current annual reporting period to date. This statement shall be accompanied by a comparative Statement of Changes in Equity for the same interim period of the immediately preceding annual reporting period.

Example 1

An entity with an accounting period of 1 January-31 December prepares quarterly interim financial reports. This entity shall present the following financial statements at its second quarterly current interim period ending on 30/6/20X1:

Statement of Financial Position dated 30/6/20X1 and the comparative Statement of Financial Position dated 31/12/20X0.

Statements of Profit or Loss for the interim periods of 1/4/20X1 - 30/6/20X1 and 1/1/20X1 - 30/6/20X1 and comparative Statements of Profit or Loss for the interim periods of 1/4/20X0 - 30/6/20X0 and 1/1/20X0 - 30/6/20X0.

Statement of Changes in Equity for the interim period 1/1/20X1 - 30/6/20X1 and the comparative the Statement of Changes in Equity for 1/1/20X0 - 30/6/20X0.

Statement of Cash Flows for the interim period 1/1/20X1 - 30/6/20X1 and comparatively the Statement of Cash Flows for the interim period 1/1/20X0 - 30/6/20X0.

Materiality

24.11 In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, **materiality** criteria shall be assessed in relation to the interim period financial data. In making assessments of materiality, it should be taken into account that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

Disclosure in Annual Financial Statements

24.12 If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note to the financial statements for that annual reporting period. The entity is not required to make additional disclosures with regard to interim financial reports in its financial statements for the annual reporting period, other than this disclosure.

Measurement and Recognition

24.13 An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statement, the effects of which are to be recognised in the annual financial statements for the current period. However, measurements for interim reporting purposes shall be made on a year-to-date basis in order to ensure that the frequency of an entity's reporting do not affect the measurement of its annual results.

24.14 Thus, in the measurements for interim periods, the relevant interim period is not considered as an independent reporting period, but as a part of the annual reporting period. In such measurements, information available during the preparation of interim financial statements shall be used. Amounts reported in the current interim period reflect the changes in estimates related to the amounts reported in the preceding interim period and if changes in estimates are significant, information specified in 24.8 (d) or 24.12 shall be disclosed. Nevertheless, amounts reported in the prior interim period shall not be corrected **retrospectively**.

Use of Estimates

24.15 While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports. Therefore, the measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed.

Restatement of Previously Reported Interim Periods

24.16 If an accounting policy is changed as required by a future change in this Standard, any requirements to be specified regarding the application of the policy change shall be implemented. In other cases, a change in accounting policy shall be recognised in the financial statements in the following steps:

a) Financial statements of previous interim periods of the current reporting period as well as the financial statements of comparative interim periods presented in relation to the current interim period shall be adjusted.

b) When it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to previous periods, the financial statements of comparative interim periods shall be adjusted so as to apply the new accounting policy prospectively from the earliest date practicable.

SECTION 25

FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

25.1 This section establishes the accounting principles for the preparation of the **financial statements** of entities whose **functional currency** is the currency of a hyperinflationary economy. According to this section, such entities need to restate their financial statements adjusted for the impact of hyperinflation. Entities cannot present the pre-adjustment version their financial statements together with their financial statements adjusted for inflation.

Hyperinflationary Economy

25.2 Entities whose functional currency is Turkish Lira shall adjust their financial statements for inflation, if the increase in the Domestic Producer Prices General Index (DPPI) calculated for Turkey as a whole by the Turkish Statistical Institution is higher than 100% for **the last three reporting periods** including the current period and higher than 10% in the current reporting period.

25.3 Of the entities whose functional currency is Turkish Lira, those who prepare their interim financial statements according to this Standard, shall take the previous thirty six months including the last month of the interim period into account instead of the last three reporting periods and shall take the last twelve months into account instead of the current reporting period, while applying the requirements in the paragraph 25.2 in the determination of hyperinflation as of the end of the **interim period**.

25.4 Entities whose functional currency is not Turkish Lira shall determine whether the economy to which such currency pertains is a hyperinflationary economy, in the light of all existing information, and taking the following indicators into account:

a) The majority of its population prefers to keep their wealth in non-monetary assets or in a relatively more stable currency. The local currency held are immediately converted to investment in order to maintain its purchasing power.

b) The majority of its population regards monetary amounts (e.g. prices) not in terms of the local currency but in a relatively stable currency.

c) Forward sales and purchases are performed at prices that eliminate the impact of the expected loss of purchasing power throughout the maturity period, even if the period is short.

d) Interest rates, wages and prices are linked to a price index, and

e) The cumulative inflation rate over last three years is approaching or exceeds 100%.

Adjustment of Financial Statements for Inflation

25.5 All amounts in the financial statements of entities using the currency of a hyperinflationary economy as their functional currency shall be denominated on the basis of the current value (purchasing power) at the end of the reporting period. Furthermore, the comparative data presented in relation to previous reporting periods shall be denominated in their current value at the end of the reporting period.

25.6 A general price index should be used in adjusting financial statements in accordance with this section. In this respect, entities whose functional currency is Turkish Lira shall use the DPPI calculated for Turkey as a whole by the Turkish Statistical Institution as the general price index. Other entities shall use a general price index reflecting the changes in the general purchasing power.

Adjustment of Statement of Financial Position for Inflation

25.7 Of the amounts in the **Statement of Financial Position,** those not expressed in their current value at the end of the reporting period shall be adjusted by using the general price index.

Adjustment of Monetary Items

25.8 **Monetary items** shall not be adjusted, since they are indicated in their current values at the end of the reporting period.

25.9 Assets and **liabilities** that are subject to price changes by contracts (e.g. bonds and loans linked to index) shall be adjusted in accordance with the requirements of the related contract.

Adjustment of Non-Monetary Items

25.10 Whether non-monetary items shall be adjusted for inflation depends on the values based on which these items are recognized in the Statement of Financial Position. Accordingly, non-monetary items recognized based on their current value at the end of the reporting period (e.g. Assets and liabilities recognized on the basis of their **net realizable value** or **fair value**) shall not be adjusted.

25.11 On the other hand, non-monetary items of assets and liabilities that are not recognized based on their current values at the end of the reporting period shall be adjusted. In this respect:

a) The amount adjusted for inflation of a non-monetary item carried at cost or cost less **depreciation**; shall be calculated by applying to its historical cost and accumulated depreciation the change in an envisaged general price index from the date of acquisition to the end of the reporting period. For example, **property, plant and equipment,** raw materials and commodities, **goodwill,** patents, trademarks and similar assets shall be restated from the dates of their purchase. Partly-finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.

b) The amount adjusted for inflation of a non-monetary item carried at its value on a date other than the acquisition date or the date of the Statement of Financial Position (e.g. of property, plant and equipment revalued on a date before the end of the reporting period) shall be calculated through adjustment from the date when such value was determined.

25.12 If the adjusted amounts are higher than the **recoverable amount** or net realizable value of the related non-monetary item, they shall be reduced to such values.

Impact of Inflation in Borrowing Costs

25.13 The impact of inflation is usually recognised in the financial statements in **borrowing costs**. Therefore, it is not appropriate both to adjust capital expenditures financed by borrowing and to capitalize the part of borrowing costs that compensate the effect of inflation. For this reason, the such part of the borrowing costs shall be recognised in the financial statements as an expense in the period in which the costs are incurred. The part of borrowing costs that compensate the effect of inflation shall be determined based on the inflation rate realized in the corresponding time frames and the related items shall be restated based on the amounts remaining after the deduction of this amount.

Adjustment of Equity

25.14 At the beginning of the first period of application of this section, equity items other than the increases in “Accumulated Profit/Loss” and “Revaluation Reserve” shall be adjusted by using the general price index as of the date when they are transferred to the entities or when they arise. The amount in the "Revaluation Reserve" item shall be eliminated. The adjusted amount of the "Accumulated Profit/Loss" shall be obtained from all other amounts in the Statement of Financial Position.

25.15 At the end of the first period of application of this section and the subsequent periods, all equity items shall be adjusted by using a general price index from the beginning of the period or the date when the equity items were contributed to the entity.

25.16 Adjustment amounts arising in relation to the amount of paid-in capital due to the inflation adjustment shall be separately indicated in the "Capital Adjustment Differences" item in the Statement of Financial Position.

Adjustment of the Statement of Profit or Loss for Inflation

25.17 All items of the **Statement of Profit or Loss** shall be expressed in their current values at the end of the reporting period. In this respect, all **income** and expense items should be restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the financial statements. If inflation steadily rises in a period and income and expense items arise approximately equally in the period, an average price index can be applied.

Gains or Losses on Net Monetary Position

25.18 In hyperinflationary economies, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power and an entity with an excess of monetary liabilities over monetary assets gains purchasing power (to the extent the assets and liabilities are not linked to a price level), while the purchasing power of entities in the exactly opposite position increases. The gains or losses arising from the net monetary position shall be recognised in the Statement of Profit or Loss and as the item "Gains (Losses) on Net Monetary Position".

25.19 Gains or losses on net monetary position can be calculated based on the differences arising from the inflation adjustment of non-monetary assets, equity, and income and expense items. The adjustment to assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 25.9 shall be offset against gains or losses on net monetary position.

Adjustment of Statement of Cash Flows for Inflation

25.20 All items in the **Statement of Cash Flows** shall be expressed in terms of their current value at the end of the reporting period.

Comparative Financial Information

25.21 Items in the financial statements for the period or periods presented comparatively shall be adjusted so that they are expressed in terms of their current value at the end of the current reporting period.

Consolidated Financial Statements

25.22 In order to prepare the **consolidated financial statements**, the financial statements of the **parent** and the **subsidiary** using the currency of a hyperinflationary economy shall be adjusted for inflation, by applying the requirements of this section.

25.23 The share of an entity in **associates** or **joint ventures** which use the currency of a hyperinflationary economy as their functional currency and which are accounted for by using the equity method shall be calculated after their financial statements are adjusted for inflation according to this section.

Calculation of the Deferred Tax Amount at the Beginning of the Period in the Reporting Periods when this Section is Applied

25.24 **The amount of deferred tax** to be included in the opening Statement of Financial Position at the beginning of the reporting periods for which this section is applied shall be determined as follows:

a) **Carrying amounts** of non-monetary items on the date of the opening Statement of Financial Position shall be adjusted by applying the **measurement** amount on this date. By comparing their adjustment amounts with their **tax bases** on the date of the opening Statement of Financial Position, the deferred tax amounts shall be re-measured in accordance with the section "Taxes on Income".

b) The deferred tax amounts re-measured in accordance with clause (a) shall be adjusted according to the changes arising in the unit of measurement from the date of the opening Statement of Financial Position until the end of the reporting period.

The approach prescribed in clauses (a) and (b) shall be applied in the adjustment of the deferred tax amounts in the opening Statement of Financial Position of all periods which are presented comparatively with the financial statements of the reporting period when the requirements of this section are applied.

End of Hyperinflation

25.25 Entities whose functional currency is Turkish Lira shall discontinue the inflation accounting practice, if both of the conditions specified in paragraph 25.2 are not met. Entities whose functional currency is not Turkish Lira shall discontinue the inflation accounting practice when their assessment of the currency as a hyperinflationary currency is no longer valid.

25.26 When the hyperinflation ends, the values in the financial statements of the last reporting period adjusted for inflation shall constitute a basis for the carrying amounts in financial statements pertaining to subsequent reporting periods.

Disclosures

25.27 The following shall be disclosed in the **notes**, if this section is applied:

a) The fact that the financial statements and other data pertaining to the previous periods were restated to reflect the changes in the overall purchasing power of the functional currency.

b) The general price index used, its level at the end of the reporting period and the changes that has occurred in the index during the current and previous reporting period.

c) Gains or losses on net monetary position arising in the period.

SECTION 26
NOTES

26.1 This section establishes the general principles for the presentation of **notes** to financial statements and specifies the disclosures that should be provided in the notes in addition to those prescribed in other sections.

General Principles for the Presentation of Notes

26.2 Notes include the information that should be presented in addition to the information included in the **Statement of Financial Position**, **Statement of Profit or Loss**, **Statement of Cash Flows** and **Statement of Changes in Equity**. Notes shall include disclosures regarding the items in the **financial statements** and information about elements that could not be recognised in the financial statements because they do not meet the recognition criteria.

26.3 Notes shall, as far as practicable, be presented in a systematic manner. In determining how to present the notes, their impact on the **understandability** and comparability of financial statements shall be taken into account. Each item on the face of the financial statements, shall be cross-referenced to any related information in the notes.

26.4 Notes shall be presented in the following order in order to present them in a systematic manner:

a) General information on the entity,

b) Explanation that the financial statements are fully compliant with the requirements of this Standard,

c) Summary of the important **accounting policies** applied,

d) Additional disclosures regarding financial statement line items, provided that they are presented in the same order as the financial statements and the line items they include, and

e) Other disclosures.

Information to be Disclosed in the Notes

26.5 Disclosures that should be made only in specific situations are discussed in other sections. For instance, in the section "*Accounting Policies, Estimates and Errors"* specifies disclosures that should be made in the event of a change in accounting policies, whereas the section "*Conceptual Framework and Financial Statements*" specifies the disclosures that should be made in case the **going concern** assumption is no longer valid. This section, on the other hand, provides the general disclosures that should be made by entities. The disclosures prescribed in this section vary depending on the size of entities and whether the financial statements are **consolidated financial statements**. Entities shall provide the disclosures prescribed in this section along with the disclosures that they should provide according to the other sections in the notes.

26.6 When the disclosures required by this Standard are not sufficient to ensure a **faithful representation**, additional disclosures deemed necessary to enable users of financial statements to better understand the effect of a certain transaction or event on the financial position and performance of the entity.

Disclosures to be Made by All Entities

26.7 The disclosures specified under this title shall be made by all entities, regardless of their size and whether their financial statements are consolidated financial statements. The disclosures that are related with a certain financial statement item shall be provided in the part where disclosures about the item are provided.

a) General information about the entities. The minimum information to be provided in this respect is as follows:

(i) The legal form and shareholding structure of the entity, country of incorporation, the address of its registered office and the or principal place of business, if different from the registered office,

(ii) General information about the entity's line of business and **operating activities**,

(iii) If the entity is a **subsidiary**, the name and registered office of its **parent** and the parent of the biggest **group** that it belongs to. Information on how to access the consolidated financial statements of the parents, if they prepare consolidated financial statements.

(iv) If the entity is established for a predefined period, the duration of this period.

b) A statement indicating that the entity prepares its financial statements in accordance with this Standard and its financial statements are fully compliant with the requirements of this Standard.

c) The **functional currency** of the entity and the fact that its financial statements are presented in a currency other than the functional currency, if applicable, along with its reason.

d) Date of approval of the financial statements by the governing body and the approving person and/or body. Furthermore, if parties such as owners of the entity are capable of amending the financial statements after their publication, this fact shall be disclosed.

e) The names, registered offices of the subsidiaries, **associates** and joint ventures of the entity and the ration of its ownership interest in these investments. Furthermore, entities that do not prepare consolidated financial statements shall provide the amount of the capital and reserves and net profit or loss for the period of these investments in this disclosure. However, these entities do not need to disclose the amount of the capital and reserves and net profit or loss for the period of their associates and joint ventures which do not publicly disclose their financial statements.

f) Names, legal forms and registered offices of the entities where it has unlimited liability.

g) Significant accounting policies implemented. While disclosing these policies, the judgements of the management of the entity which have a significant influence on the amounts recognised in the financial statements will be provided as well.

h) Important estimates and assumptions made in the preparation of financial statements.

i) Components of **cash** and **cash equivalents**.

j) Foreign currency assets in cash and banks, their type and amount.

k) Amount of blocked deposits in banks.

l) Collaterals received for receivables and their amounts.

m) Amount of receivables in foreign currency, by separating them according to their maturity types (e.g. those with a maturity up to 1 year and those with a maturity longer than 1 year), the type and amount of the foreign currency, exchange rate difference gains or losses recognised in the period in relation to these, amounts of **interest** calculated for the period, if any; and **impairment** losses recognised or reversed. These disclosures shall be separately provided for trade receivables, other receivables, trade payables and other payables.

n) The amount of receivables and payables that do not fall within the scope of the clause (m) by being separated by their maturity structures (e.g. those with a maturity of up to 1 year and longer than 1 year), the interest amount calculated for the period and impairment losses recognised or reversed, if any. These disclosures shall be separately provided for trade receivables, other receivables, trade payables and other payables.

o) Trade receivables, other receivables, trade payables and other payable amounts the counterparty of which is an **entity in the same group**[*].

p) The carrying amounts at the beginning and end of the reporting period of each financial asset and financial liability category specified below, disaggregated by their maturity structures (e.g. Those with a maturity of up to 1 year and longer than 1 year) and by type of foreign currency:

(i) Financial assets classified as debt instruments.

(ii) Financial liabilities classified as debt instruments.

(iii) **Equity instruments** measured at market value.

(iv) Equity instruments measured at cost.

(v) Financial assets classified as other financial instruments, if any, by separating derivatives.

(vi) Financial liabilities classified as other financial instruments, if any, by separating derivatives.

Transactions resulting from the following elements in relation to each of the abovementioned categories shall be disclosed:

- Acquisitions, disposals and reclassifications in the period,

* For the purposes of this Standard, the term 'group' refers to a parent and all the subsidiaries it owns directly or indirectly. Therefore, from the standpoint of a parent, "entities within the same group" used in this Standard refers to all subsidiaries owned directly or indirectly by the parent. If the parent is also a subsidiary itself, 'group' refers to its intermediate and ultimate parents and the subsidiaries of the parent or parents. From the standpoint of subsidiaries that are not in the nature of a parent, the statement "entities in the same group" used in this Standard refers to the intermediate and ultimate parents of the entity and the subsidiaries of the parent or parents.

- Interest income and expenses, gains or losses on exchange rate differences and impairment losses recognised or reversed, if any, in the period for the financial asset and liability categories listed in (i) and (ii),
- Impairment losses recognised or reversed in the period, if any, for the category of financial assets listed in (iv),
- Value appreciations or depreciations relating to the period for the financial assets specified in (iii), (v) and (vi). On the other hand, if there are financial instruments measured at cost within the financial asset and liability category listed in (v) and (vi), the impairment losses recognised or reversed shall be shown separately.

q) For each category in (p), if the counterparties of some of the related financial assets or liabilities are entities in the same group or the associates or joint ventures of the entity, the carrying amounts at the end of the period of these financial assets or liabilities shall be indicated separately. For example, if the entity's financial assets classified as debt instruments include debt instruments issued by entities, associates and joint ventures within the same group, the carrying amounts at the end of the period of debts instruments issued by entities in the same group, by the associates and joint ventures and by other entities shall be indicated separately.

r) In addition to the disclosures provided in accordance with the clauses (p) and (q), the following disclosures shall be made for financial instruments measured at **fair value**.

(i) In cases where the fair value is estimated by applying the valuation technique, significant assumptions underlying the valuation technique.

(ii) The nature and scope of each class of derivative financial instruments.

(iii) The reasons for financial instruments that could not be measured at fair value because their fair value cannot be measured reliably.

s) The following disclosures shall be provided in relation to **inventories**:

(i) Methods applied in the determination of the cost of inventories (e.g. Full cost), cost measurement techniques (e.g. Standard cost, retail method) and cost calculation methods (e.g. FIFO, weighted average cost).

(ii) Impairment losses recognised or reversed in the current period and the reasons for this.

(iii) Carrying amounts of inventories measured at market value in accordance with paragraph 6.5.

(iv) Borrowing costs included in the cost of inventories in the period.

t) The following disclosures shall be provided in relation to **biological assets**:

(i) How the biological assets were classified and descriptive information about each class.

(ii) Whether each biological asset class was measured at fair value or at cost.

(iii) The methods applied and significant assumptions made in the determination of fair value in terms of each biological asset class measured at fair value.

(iv) Reasons for measuring a biological asset that is supposed to be measured at fair value at cost.

(v) **Depreciation** method and **useful lives** of biological assets measured at cost.

(vi) Carrying amounts at the beginning and end of the period of biological assets, as well as transactions in the current period that result from the following, separately for biological assets measured at fair value and at cost.

a. Increases resulting from purchases.

b. Decreases resulting from sales.

c. Decreases resulting from **harvest**.

d. Increases resulting from **business combinations.**

e. In terms of biological assets measured at fair value, gains or losses arising from changes occurring in the **fair value less cost to sell**.

f. In terms of biological assets measured by using the cost method, depreciation amounts, impairment losses and write-off of impairment losses.

This information does not have to be provided for the period or periods presented comparatively.

u) Methods used and significant assumptions made in the determination of the fair value for each class of **agricultural products**.

v) The following disclosures shall be provided for **investment property**, **property, plant and equipment**, **intangible assets** (separately for each **measurement** basis used):

(i) The purchase price or production cost of fixed assets measured at cost. The amounts at the beginning and end of the period of investment property measured at fair value and property, plant and equipment measured at their revalued amount.

(ii) Acquisitions, disposals and reclassifications in the period.

(iii) In terms of investment property, changes occurring in the fair value in the current period,

(iv) Accumulated depreciation (or **amortisation**) and impairment losses at the beginning and end of the period.

(v) Depreciation amounts (or amortization) and impairment losses recorded in the current period.

(vi) Changes in the accumulated depreciation (or amortization) and impairment losses due to acquisitions, disposals and reclassifications in the period.

(vii) Borrowing costs capitalized in the period.

w) The number of years over which each amount of **goodwill** is depreciated, in addition to the disclosures made under (v).

x) The following additional disclosures shall be made when items of property, plant and equipment are measured at their revalued amount:

(i) Changes in the "Revaluation Reserve" in the current period,

(ii) The tax effect on the gains recognised in the “Revaluation Reserve”,

(iii) Carrying amounts of property, plant and equipment that would be presented on the face of Statement of Financial Position, if they were not measured at their revalued amount.

y) In addition to the disclosures made as per (v), the following disclosures shall be made for investment property measured at their fair value:

(i) In cases where the fair value is estimated by applying the valuation technique, significant assumptions underlying the valuation technique.

(ii) The reasons for investment property that could not be measured at its fair value because its fair value cannot be measured without undue cost or effort.

z) The following disclosures shall be made for **leases**:

(i) The lessee shall disclose the following, in relation to **leases**:

a. Total net carrying amounts of assets subject to finance lease at the end of the **reporting peri**od for each class of **assets**.

b. Total lease payments to be made the next year, years 2 through 5 combined and beyond five years shall be disclosed separately.

c. A general disclosure regarding significant lease agreements, including contingent rent payments, purchase rights, subleases and restrictions imposed under leasing agreements.

(ii) The lessee shall disclose the following in relation to **operational leases**:

a. Total lease payments to be made the next year, years 2 through 5 combined, and beyond five years shall be disclosed separately.

b. Lease payments recognised as expense in the period.

c. A general disclosure regarding significant leasing agreements, including contingent rent payments, purchase rights, subleases and restrictions imposed under leasing agreements.

(iii) The lessor shall disclose the following in relation to finance leases:

a. Reconciliation between the lease payments and the **present value** of lease payments as of the end of the reporting period. Furthermore, the lease payments and the present value of lease payments, lease payments to be received the next year, years 2 through 5 combined, and beyond five years shall be disclosed separately.

b. Unearned finance income.

c. Unguaranteed **residual values** pertaining to the lessor.

d. Accumulated **provisions** for receivables pertaining to uncollectible lease payments.

e. Contingent rent payments recognised as income in the period.

f. A general disclosure regarding significant lease agreements, including contingent rent payments, purchase rights, subleases and restrictions imposed under leasing agreements.

(iv) The lessor shall disclose the following in relation to operating leases:

a. Total lease payments to be received the next year, years 2 through 5 combined, and beyond five years shall be disclosed separately.

b. Lease payments recognised as income in the period.

c. A general disclosure regarding significant leasing agreements of the lessee, including contingent rent payments, purchase rights, subleases and restrictions imposed under leasing agreements.

aa) Constituents of the “Prepaid Expenses” items and “Other Current Assets” and “Other Fixed Assets” items and their amounts.

bb) Total insurance amount pertaining to the assets.

cc) Fixed assets that are provided as collateral or the rights over which are restricted and their carrying amount.

dd) The nature and amount of **government incentives** recognised in the financial statements. In this respect, performance conditions that have not been fulfilled yet in respect of government incentives not recognised in the profit or loss shall be disclosed as well.

ee) Constituents of the "Deferred Income" items and "Other Short-term Liabilities" and "Other Long-term Liabilities” items and their amounts.

ff) The following elements shall be disclosed for each type of provisions (e.g. Provisions for litigation, provisions for severance pay, etc.):

(i) Amounts at the beginning and end of the period and the total value of the transactions in the period that arise from the following:

a. Provisions set aside in the current period.

b. Change in the amount of discounted provisions.

c. Provisions reversed in the current period.

(ii) A brief explanation regarding the nature of the provision and the expected amount and timing of payments.

(iii) Expected amount of compensation for the provisions and whether any assets are recognised for the compensation amount.

gg) In addition to the disclosures to be made for contingent liabilities according to the section *"Provisions, Contingencies Liabilities and Contingencies Assets",* the total amount of financial commitments, guarantees and contingent liabilities not included in the Statement of Financial Position.

hh) The amount, conditions and interest rates of the advances and loans given to the members of the governing body and senior managers (such as general manager and vice general managers), portions repaid and portions the repayment of which are waived and the commitments given in the name of these individuals and commitment amounts.

ii) Amount of the remuneration given to the members of the governing body and the senior managers in the current period.

jj) Registered capital ceiling in companies that adopt the registered capital system.

kk) The number and **par value** of shares (carrying amount of shares if they do not have par value) of their shares and the number and par value (carrying amount of shares if they do not have par value) of the shares authorised in the current period. If there is more than one class of shares, these disclosures shall be made separately for each share group.

ll) Participation certificates, debt instruments convertible to shares, warrants, options or similar securities or rights, by specifying their number and the rights they grant.

mm) Constituents of the "Cost of Sales" item.

nn) Material amounts, if any, classified as “Other Revenue” in Income from Other Activities, as “Other Expenses” in Expenses from Other Activities and as “Other Finance Costs” in Finance costs in the Statement of Profit or Loss.

oo) Income derived from or expenses paid or payable to entities in the same group, if any, classified as “Interests, Dividends, and Other Income” and “Interests and Similar Expenses” in the Statement of Profit or Loss shall be disclosed separately for each item. Furthermore, if there is an income from financial investments classified as property, plant and equipment in the "Interests, Dividends and Similar Income," these shall be disclosed separately.

pp) The amount and nature of income or expense items that occur irregularly or that are unusual in amount.

qq) If the risks and benefits resulting from agreements not recognised on the face of the Statement of Financial Position are significant, the nature and commercial purpose of such agreements, as well as their financial impact.

rr) The nature and financial impact of significant events occurring after the reporting period, which are not recognised in the Statement of Profit or Loss or Statement of Financial Position and which do not require adjustment.

ss) Transactions conducted with the following parties, the amount of these transactions and other information necessary in respect of the transactions in order to understand the financial position of the entity:

(i) Individuals or entities with significant influence, **joint control** or **control** over the entity.

(ii) Entities controlled by individuals or entities with significant influence, joint control or control over the entity.

(iii) Subsidiaries, associates and joint ventures of the entity.

(iv) Members of the governing body.

Information about individual transactions can be grouped by their nature except when it is necessary to separately present information about each related party transaction to enable an understanding of their effects on the financial position of the entity.

tt) Profit and **dividend ratios** per share, separately for ordinary and preference shares.

uu) The following information shall be provided for each business combination effected in the period:

(i) General information about the entity and title of the acquiree,

(ii) **Acquisition date,**

(iii) Ratio of the voting rights acquired,

(iv) Cost of combination and constituents of the cost,

(v) Amounts at the acquisition date of the assets including goodwill and liabilities assumed which are included in each item of the Statement of Financial Position,

(vi) The method of calculation and amount of the goodwill or negative goodwill.

vv) The entity shall disclose the following, if hedge accounting is applied:

(i) The following shall be separately disclosed for hedging against each of the four types of risks explained in paragraph 9.47:

a. Definition of hedging.

b. Definition of financial instruments described as hedging instruments and their fair values on the reporting date.

c. Nature of the risks hedged, including the definition of the hedged item.

(ii) The entity shall disclose the following, if it applies hedge accounting against the price risk relating to a commodity it retails or against fixed interest rate risk:

a. Amount of change in the fair value of the hedging instrument through profit or loss in the period.

b. Amount of change in the fair value of the hedged item through profit or loss in the period.

(iii) The following shall be disclosed, if the entity applies hedge accounting against commodity price risk, exchange rate risk, variable interest rate risk in a fixed commitment or a highly probable forecast transaction or in a net investment abroad:

a. The expected timing of cash flows and the expected recognition in profit or loss o of the effects of such cash flows.

b. Definition of forecast transactions for which hedge accounting was applied previously, but which are not expected to be discontinued.

c. Amount of change in the fair value of the hedging instrument recognised in equity in the period.

d. Amount that is deleted from the equity and reclassified under the profit or loss in the period.

e. The proportion of the fair value of the hedging instrument that exceeds the change in the fair value of expected cash flows recognised in profit or loss.

Additional Disclosures to be Made only by Large Entities

26.8 Additional disclosures to be made only by large entities are explained under this title. The disclosures that are related with a certain line item in financial statements hall be provided in the part where disclosures about the item are provided.

a) Net sales revenue disaggregated by significantly different categories of activity and geographical markets, taking into consideration the manner of organizing the provision of services and sales of products into account.

b) Transactions conducted with all related parties, the amount of these transactions, the nature of the relationship with the related party and other information necessary in respect of the transactions required to understand the financial position of the entity:

Information about individual transactions can be grouped by their nature except when it is necessary to separately present information about each related party transaction to enable an understanding of their effects on the financial position of the entity.

Disclosures to be Made in Consolidated Financial Statements

26.9 Entities that prepare consolidated financial statements shall make all the disclosures specified under the titles "Disclosures to be Made by All Entities" and "Disclosures to be Made by Large Entities", regardless of whether they are large entities. Therefore, entities that do not meet the definition of large entity but elect to prepare consolidated financial statements shall also provide those specified in the "Disclosures to be Made by Large Entities" in their notes. The disclosures specified in the abovementioned titles shall be made so that financial positions of entities included in consolidated financial statements can be evaluated as a whole. To this end, the necessary adjustments arising from the unique features of consolidated financial statements shall be made in the said disclosures. The following are examples of adjustments to be made in this regard:

a) While making disclosures regarding transactions conducted between related parties under the clause (b) of the paragraph 26.8, disclosures regarding the related party transactions between consolidated entities that are eliminated during consolidation shall not be provided.

b) While making disclosures regarding the advances and loans given to the members of the governing body and senior managers, as well as the commitments given in their name, as per the clause (hh) of the paragraph 26.7, only those that are given by the parent and subsidiaries to the members of the parent's governing body and its senior managers and those committed in their name shall be disclosed.

26.10 The following additional disclosures shall also be made in the consolidated financial statements:

a) In addition to and separately from the disclosures made under the clause (e) of paragraph 26.7, the proportion of shares in the subsidiaries within the group and the associates and joint ventures of the parent owned by (i) entities other than the parent within the group, and (ii) by individuals acting in their own name but on account of such entities.

b) How the control over each subsidiary was obtained.

c) The reason for not consolidating the unconsolidated subsidiaries.

SECTION 27
TRANSITIONAL REQUIREMENTS

27.1 This section shall be applied to the financial statements prepared for the first time according to this Standard by entities which previously prepared financial statements according to TFRS, General Communiqués for the Application of Accounting System or another financial reporting framework or that has not previously present their **financial statements** to their shareholders or other external parties. **Financial statements of first-time adopters of this Standard** are annual financial statements that are issued in accordance with this Standard for the first time and contain an explicit and unreserved statement of compliance with this Standard.

27.2 If an entity that previously applied this Standard discontinues to apply this Standard in one or more reporting periods, but starts to apply it again in the current reporting period, the entity can choose to apply the requirements of this section or to **retrospectively** apply all requirements of this standard as per the section "*Accounting Policies, Estimates and Errors*", as if it never stopped applying this Standard. When such an entity adopts this Standard again, it shall disclose which of the abovementioned methods it applied as well as the reasons for discontinuing and restarting to apply this Standard in the **notes**.

27.3 Initial TransitionExcept the entities which previously implemented TFRS, an entity that applies this Standard for the first time is not required to prepare comparative financial statements of the previous period or periods. Entities benefiting from this exemption shall prepare the **Statement of Financial Position** pertaining to the beginning of the current reporting period (opening Statement of Financial Position) as well as the financial statements of the current reporting period in accordance with this Standard and the beginning of the current reporting period is taken into account as the **date of transition** to this Standard. Financial statements of the previous period or periods issued according to the previous financial reporting framework cannot be presented as comparative financial statements.

27.4 However, entities that do not wish to benefit from the exemption specified in paragraph

27.3 shall also prepare their comparative financial statements of the previous period or periods in accordance with this Standard. In this case, the entity shall also prepare the Statement of Financial Position pertaining to the beginning of the earliest period presented comparatively (opening Statement of Financial Position) and the beginning of the said period shall be taken into account as the date of transition to this Standard.

Example 1: An entity will apply this Standard for the first time, in the preparation of the financial statements of the reporting period starting on 1/1/2018. The entity benefits from the exemption specified in paragraph 27.3. In this case, the financial statements of the first time adopter shall include the financial statements pertaining to the period starting on 1/1/2018 (current reporting period) and the Statement of Financial Position on the date of 1/1/2018. Furthermore, the date of 1/1/2018 shall be taken into account as the date of transition to this Standard.
Example 2: An entity will apply this Standard for the first time in the preparation of the financial statements of the reporting period starting on 1/1/2018. The entity does not elect to benefit from the exemption specified in the paragraph 27.3. The enterprise would also like to provide comparative data of the previous year while presenting its financial statements. In this case, the financial statements of the first time adopter shall include the financial statements pertaining to the period starting on 1/1/2018 (current reporting period) and the Statement of Financial Position on the date of 1/1/2018. Furthermore, the date of 1/1/2017 (opening statement of financial position) shall be taken into account as the date of transition to this Standard.

27.5 In the opening Statement of Financial Position, the following actions shall be taken, except the exemptions specified in this section:

a) All **assets** and **liabilities** that are required be recognised in the financial statements under this Standard shall be recognised in the opening Statement of Financial Position.

b) Assets and liabilities that are not permitted to be recognised in the financial statements by this Standard shall not be recognised in the Statement of Financial Position.

c) Asset, liability or **equity** items that were classified according to a previous financial reporting framework different than the requirements of this Standard shall be reclassified in accordance with this Standard.

d) This Standard shall be applied in the **measurement** of all assets and liabilities recognised in the opening Statement of Financial Position.

27.6 **Accounting policies** applied in the preparation of the opening Statement of Financial Position shall be applied in the same manner to the periods presented in the financial statements where this Standard is applied for the first time. Except for the exemptions specified in this section, these accounting policies should be in compliance with the requirements of this Standard that are effective as of the end of the current reporting period.

27.7 Accounting policies applied in the opening Statement of Financial Position prepared according to this Standard may be different than the accounting policies in the Statement of Financial Position issued in accordance with the previous financial reporting framework. As a result, the adjustments performed in the related items arise from transactions or events before the date of transition to this Standard. Therefore, the adjustments in question shall be recognised directly within the "Accumulated Profit/Loss" item (or in a different equity item if applicable) as of the date of transition to this Standard.

27.8 However, entities that will recognise severance pay liability in their financial statements for the first time with this Standard may reflect the total severance pay amounts pertaining to the reporting periods before the transition date in the "Accumulated Profits/Losses" item in equal amounts for not more than ten years. In this case, the first one among the equal amounts will be recognised in the Statement of Financial Position and the estimated total amount of the severance pay and the part of this amount not recognised in the financial statements shall be disclosed in the notes.

Exceptions

27.9 In this section, two types of exemptions are introduced for the compliance of the opening Statement of Financial Position with the requirements of this Standard. The first one is the exemption for ensuring that some requirements of this Standard are not applied retrospectively. The second exemption allows an entity not apply some of the requirements of this Standard retrospectively.

Exemptions Prescribing Non-Retrospective Application of Some Requirements of This Standard

27.10 A first-time adopter shall not adjust the accounting procedures pertaining to the following matters, which were performed in accordance with the previous financial reporting framework retrospectively:

a) Derecognition of **financial assets** and **financial liabilities.**

Financial assets and liabilities derecognised before the transition date according to the previous financial reporting framework shall not be recognised again in the Statement of Financial Position according to this Standard. In addition, of the financial assets and liabilities present on the transition date, those eligible for derecognition in accordance with this Standard may continue to be presented in the Statement of Financial Position until their disposal or settlement, if desired.

b) Accounting estimates

Estimates on the transition date that must be made in accordance with this Standard must be consistent with the estimates made according to the previous financial reporting framework on this date (after adjustments are made to reflect the differences in accounting policies), unless there is unbiased evidence indicating that these estimates are wrong.

Information that will affect the estimates made according to the previous financial reporting framework may be obtained after the transition date. This information shall not be taken into account in the estimates to be made on the transition date; they will be deemed as an event after the reporting period that does not require adjustment, according to the section "*Events After the Reporting Period*".

This Standard may require various estimates that were not made according to the previous financial reporting framework as of the transition date. In making these estimates, the conditions present on the transition date shall be taken into account, to ensure compliance with the section "*Events after the Reporting Period*".

The requiremenets in this clause are also applicable to the comparative periodical financial statements presented in the financial statements to which this standard is applied for the first time. In this case, references made to the transition date in this clause shall be deemed to have been made to the end of the comparative period in question.

c) Measurement of **non-controlling shares**.

The following requirements of the section "*Consolidated Financial Statements*" shall be applied **prospectively** as of the transition date.

(i) Clause (d) of the paragraph 22.25, which states that the profit or loss of the period and the gains and losses recognised in the equity (e.g. "Revaluation Reserve", "Foreign Currency Translation Differences" and "Hedge Reserves" items) should be distributed among non-controlling interests and the owners of the **parent**,

(ii) Paragraphs 22.29 and 22.30, which contain requirements regarding the accounting for changes occurring in the ownership interests of the parent in its **subsidiary** without resulting in loss of **control** and

(iii) Paragraphs 22.31 and 22.32, which contain requirements on the accounting for loss of control in a subsidiary.

However, if the exemption specified in the clause (a) of paragraph 27.11 is not utilized and the section "*Business Combinations*" is applied retrospectively for the **business combinations** in the past, these requirements shall be applied retrospectively as well.

d) Loans obtained from the government.

The sections "*Financial Instruments and Equity*" and "*Government Incentives*" shall be applied to the loans obtained from the government which are present on the transition date, prospectively from this date. In this respect, if a loan obtained from the government was not recognised and measured in accordance with this Standard as per the previous financial reporting framework, the carrying amount determined as of the transition date in accordance with the previous financial reporting framework shall be taken into account as the carrying amount of the loan on the transition date and furthermore, the benefit derived from loans obtained from the government at an interest rate lower than the market interest rate shall not be recognised as government incentive.

Exemptions that Allow for not Applying Some Requirements of this Standard

27.11 In preparing the financial statements to which this Standard is applied for the first time, one or more of the following exemptions can be applied. The exemptions provided for certain items under this title cannot be applied to other items by comparison.

a) Business combinations.

The section "*Business Combinations*" cannot be applied retrospectively for business combinations effected before the transition date. However, in cases where a business combination is recognised again retrospectively, all business combinations after this business combination shall be recognised again retrospectively.

If the section "*Business Combinations*" was not applied retrospectively for the acquisition of a subsidiary and **consolidated financial statements** will be prepared for the first time in accordance with this Standard, the amounts in the statement of financial position of the subsidiary issued in accordance with this Standard shall be taken into account as the carrying amount of the subsidiary's assets and liabilities in the Consolidated Statement of Financial Position to be prepared on the transition date.

However, the amount of **goodwill** on the transition date pertaining to a subsidiary shall be calculated by deducting the subsidiary's cost from the share corresponding to the parent from the net carrying amount of the assets and liabilities of the subsidiary, which is calculated by applying this Standard. This requiremenet shall also be applied by entities that are not obliged to prepare consolidated financial statements in accordance with this Standard but start to prepare consolidated financial statements subsequently.

b) Application of the equity method to associates and **joint ventures**.

The equity method prescribed in the sections "*Investments in Associates*" and "*Investments in Joint Ventures*" cannot be applied retrospectively to the measurements of associates and joint ventures acquired before the transition date. However, if the equity method is applied retrospectively in the measurement of an associate or joint venture, the equity method shall be applied retrospectively also for all associate and joint venture acquisitions after this acquisition. If the equity method is not applied retrospectively, the carrying amount determined according to the previous financial reporting framework shall be taken into account as of the transition date, as the associate's or joint venture's carrying amount on the transition date. The difference between the carrying amount of the associate or the joint venture and the share corresponding to the investing entity from the equity in the associate's or joint venture's own financial statements shall be separately disclosed in the notes. The equity method shall be applied as prescribed in the related sections after the transition date.

This requirement shall also be applied in case entities who measure their associates and joint ventures at the cost method as per this Standard start to apply the equity method later.

c) Measurement of associates, joint ventures and subsidiaries at cost.

The carrying amount on the transition date that is determined according to the previous financial reporting framework can be used as the cost value on the transition date of subsidiary, associate and joint venture investments measured at cost on the transition date.

d) Use of **fair value** as replacement cost.

If an item of **property, plant and equipment**, **investment property** or **intangible assets** was measured at its fair value on the transition date, the fair value in question may be used as replacement cost as of this date.

e) Use of the revaluation amount as replacement cost.

The revalued amount of an item of property, plant and equipment, investment property or intangible asset that is calculated on or before the transition date in accordance with the previous financial reporting framework can be used as replacement cost of the related asset on the revaluation date.

f) Use of fair value determined as a result of a certain event as the replacement cost.

If a first-time adopter measured the fair value of some or all of its assets and liabilities on or before the transition date due to a certain event, these measurements can be used as the replacement cost on the measurement date. If the measurement was made after the transition date, but in the periods covered by the financial statements when this Standard was applied for the first time, these measurements can be used as the replacement cost on the measurement date. In the second situation, the resulting adjustments shall be recognised in "Accumulated Profit/Loss" item or another relevant equity item on the measurement date.

g) Calculation of **deferred tax.**

The section "*Taxes on Income*" may be applied prospectively as of the transition date.

Cases Where Adjustments Are Impracticable

27.12 In cases where it is impracticable to make the adjustments prescribed in paragraph 27.5 on the transition date, the paragraphs 27.5 - 27.11 shall be applied to such adjustments in the earliest period when these adjustments can be applied and which items in the financial statements were not adjusted shall be disclosed. Furthermore, in cases where it is not practicable to present the disclosures prescribed in this Standard, the disclosures that could be made shall be specified in the notes.

Disclosures

27.13 How the transition from the previous financial reporting framework affected the financial position reported previously, the financial performance and **cash flows** shall be disclosed.

27.14 The following shall be included in the financial statements of first time adopters in order to ensure compliance with paragraph 27.13:

a) The nature of the change in each accounting policy.

b) As of both dates below, the reconciliation between the equity amount determined according to the previous financial reporting framework and the equity amount determined according to this Standard.

(i) Transition date and

(ii) The date of the most recent annual financial statements prepared in accordance with the previous financial reporting framework before transition to this Standard.

c) Reconciliation between the profit or loss amount in the latest annual financial statements prepared according to the previous financial reporting framework and the profit or loss amount determined according to this Standard for the same period.

27.15 In cases where errors in the application of the previous financial reporting framework are noticed, corrections of these errors shall be disaggregated from the changes in accounting policies to the extent possible, in the reconciliations to be made pursuant to paragraph 27.14 (b) and (c).