REPUBLIC OF TURKEY
SAKARYA UNIVERSITY
GRADUATE SCHOOL OF BUSINESS

A COMPARATIVE ANALYSIS BETWEEN THE TURKISH FINANCIAL REPORTING STANDARD FOR LARGE AND MEDIUM-SIZED ENTITIES AND THE OHADA ACCOUNTING SYSTEM

MASTER'S DEGREE THESIS

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Field : Accounting and Finance

Supervisor : Assist. Prof. Zülküf ÇEVİK

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Amadou Thierno DIALLO

06.23.2021

DEDICATION

This thesis is dedicated to my father, Ibrahima Diallo and my mother Kade Barry.

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ACRONYMS AND ABBREVATIONS

AUDICIF	**:**	Uniform Act on Accounting Law and Financial Information
BİST	**:**	Istanbul Stock Exchange (Borsa İstanbul)
BRSA	**:**	Banking Regulation and Supervision Agency
BRVM	**:**	Regional Stock Exchange
BVMAC	**:**	Central Africa Stock Exchange
CFA franc	**:**	Franc of the Financial Community of Africa
CMAC	**:**	Economic and Monetary Community of Central Africa
CMB	**:**	Capital Market Board
DXS	**:**	Douala Stock Exchange
EC	**:**	European Commission
EU	**:**	European Union
FRS for LMSE	**:**	Financial Reporting Standards for Large and Medium-Size Entities (BOBİ FRS: Büyük ve Orta Boy İşletmeler İçin Finansal Raporlama Standardı)
HAO	**:**	Non-Ordinary Activities
IASB	**:**	International Accounting Standard Board
IASC	**:**	International Accounting Standard Committee
IASCF	:	International Accounting Standards Committee Foundation
IAS/UMS	**:**	International Accounting Standards
IFRS for SME	**:**	International Financial Reporting Standard for Small and Medium-Sized Entities
IFRS/UFRS	**:**	International Financial Reporting Standards
IMF	**:**	International Monetary Fund
ISE	**:**	Istanbul Stock Exchange
KAYİK-PIE	:	Public Interest Entities
OCAM	:	African and Malagasy Union (Organisation Commune Africaine et Malgache)
OHADA	**:**	Organization for the Harmonization of Business Law in Africa
PCG	**:**	General Accounting Chart (Plan Comptable Général)
PCGO	**:**	Generally Accepted Accounting Principles (GAAP)
POA- KGK	**:**	Turkish Public Oversight, Accounting and Auditing Standards Authority (Kamu Gözetimi, Muhasebe ve Denetim Standartları

Kurumu)

SYSCOA	**:** Accounting System for West African Countries
SYSCOHADA	**:** OHADA Accounting System
TAASB	**:** Turkish Accounting and Auditing Standards Board
TASB	: Turkish Accounting Standards Board
TTK	: The new Turkish Commercial Law (TTK-Türk Ticaret Kanunu)
UEMOA	**:** West African Economic and Monetary Union
WB	**:** World Bank

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Title of the Thesis: A Comparative Analysis Between the Turkish Financial Reporting Standard for Large and Medium-Sized Entities and the OHADA Accounting System

Author: Amadou Thierno DIALLO **Supervisor:** Assist**.** Prof. Zülküf ÇEVİK

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The rapidly growing bilateral and multilateral economic relationship between Turkey and African countries leads to the necessity of understanding each other's business and financial environment. Therefore, the accounting system as a fundamental tool for organizing and disseminating financial information should be accessible and understood by business actors and other stakeholders in these areas. Furthermore, the lack of study related to this subject has led us to carry out this comparative analysis between the two accounting systems by comparing financial statements prepared under each one and analyzing their main similarities and differences.

The main purpose of this study is to highlight major differences and similarities between the SYSCOHADA and the FRS for LMSE. Also, the study is aimed to get a good understanding of both accounting sets and help practitioners and businessmen, and women operating in these places to have a good knowledge of the accounting regulations related to each country. On a topic basis and based on financial statements prepared following the SYSCOHADA rules and restated to be adapted to the FRS for LMSE, all main differences and similarities were thoroughly analyzed.

Following the case study and the thematical analysis of different accounting topics, it can be understood that the two accounting sets differ to some extent due to philosophical approach on some topics such as the prudence principle where the SYSCOHADA, contrary to the FRS for LMSE, does not allow the recognition of potential profit resulting from currency translation gains related to receivable and payables until such profit becomes certain. However, these two sets also share some major similarities due to their proximity in some way to the IAS/IFRS.

The effect of the main differences between the two sets can be noticed in the restated financial statements. The annual net income following the FRS for LMSE increased compared to the initial annual net income in the SYSCOHADA. Also, total assets and liabilities restated following the FRS for LMSE have decreased compared to the SYSCOHADA financial statements.

Keywords: SYSCOHADA, FRS for LMSE, Accounting standard, Accounting system, Comparative Analysis

Tezin Başlığı: Büyük ve Orta Boy İşletmeler için Türkiye Finansal Raporlama Standardı ile OHADA Muhasebe Sistemi Arasındaki Bir Karşılaştırmalı Analiz

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Türkiye ile Afrika ülkeleri arasında hızla büyüyen ikili ve çok taraflı ekonomik ilişkiler, birbirlerinin iş ve finans ortamını anlama zorunluluğunu doğurmaktadır. Bu nedenle, finansal bilgilerin düzenlenmesi ve yayılması için temel bir araç olarak muhasebe sistemi, bu alanlardaki iş aktörleri ve diğer paydaşlar tarafından erişilebilir ve anlaşılabilir olmalıdır. Ayrıca bu konuyla ilgili çalışma eksikliği, iki muhasebe sistemi arasında bu karşılaştırmalı analizi, her biri altında hazırlanan finansal tabloları karşılaştırarak ve temel benzerlik ve farklılıklarını analiz ederek yapmaya yöneltmiştir.

Bu çalışmanın temel amacı, SYSCOHADA ve BOBİ FRS arasındaki önemli farklılıkları ve benzerlikleri vurgulamaktır. Ayrıca, çalışma hem muhasebe standartları iyi anlamak hem de uygulayıcılara ve bu yerlerde faaliyet gösteren iş adamlarına her bir ülkeyle ilgili muhasebe düzenlemeleri hakkında iyi bilgi sahibi olmalarına yardımcı olmayı amaçlamaktadır. Konu bazında ve SYSCOHADA kurallarına göre hazırlanmış ve BOBİ FRS' ye uyarlanmak üzere yeniden düzenlenen mali tablolara dayalı olarak, tüm temel farklılıklar ve benzerlikler kapsamlı bir şekilde analiz edilmiştir.

Vaka çalışması ve farklı muhasebe konularının tematik analizi sonucunda, iki muhasebe setinin bir ölçüde felsefi yaklaşım nedeniyle ihtiyat ilkesi gibi bazı konularda farklılık gösterdiğini anlaşılmaktadır. SYSCOHADA, BOBİ FRS'nin aksine alacak ve borçlara ilişkin kur farkı kazançları kaynaklanan potansiyel kârın kesinleşene kadar muhasebeleştirilmesine izin vermemektedir. Bununla birlikte, bu iki muhasebe seti, UFRS/UMS'ye bir şekilde yakın olmaları nedeniyle bazı önemli benzerlikleri de paylaşmaktadırlar.

İki sistemin temel farkların etkisi, yeniden düzenlenen mali tablolarda fark edilebilir. BOBİ FRS'yi takiben yıllık net gelir, SYSCOHADA'daki yıllık net gelire kıyasla artmıştır. Ayrıca, BOBİ FRS'yi takiben yeniden düzenlenen toplam varlıklar ve yükümlülükler, SYSCOHADA finansal tablolarına kıyasla azalmıştır.

Anahtar Kelimeler: SYSCOHADA, BOBİ FRS, Muhasebe standartları, Muhasebe sistemi, Karşılaştırmalı Analiz

INTRODUCTION

Since the end of World War II, the world has experienced steady growth and has become more integrated than ever before. As a result, we have seen an important increase in the number of companies such as multinationals aiming to do business overseas. Also, the number of investors looking for better investment opportunities around the world have gone higher. Therefore, the need to have a common tool for reporting and assessing financial information for each company regardless of where it operates is now obvious. So, in recent years, mainly from the 1970s, in order to meet the needs of investors as regard to financial information, and also in order to achieve the comparability of every financial statement around the world, the IASC (International Accounting Standards Committee) being renamed later as the IASB (International Accounting Standards Boards), initiated the paramount work of producing and publishing the IAS (International Accounting Standards) and the IFRS (International Financial Reporting Standards) (Deloitte Touche Tohmatsu, n.d.-b). The purpose of this initiative was to develop globally accepted accounting standards that should ensure total transparency and comparability between financial statements. Furthermore, that would help individual investors, financial market investors, and other stakeholders to make sound economic decisions based on reliable financial and accounting information.

However, by being too market-oriented, the IAS/IFRS developed by the IASB has proven to be somehow more complicated to apply for non-listed companies. For those companies, many countries besides their adoption of the IAS/IFRS for their listed companies, have either developed their own set of accounting fully compliant with the IASs/IFRSs but much simpler to use or adopted the Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), a set of standards developed by the IASB and issued in July 2009 and intended for private entities with no public accountability as stated in section 1.3 (IASB, 2009).

In Europe for example, the full IAS/IFRS have been adopted for listed companies since 2005. However, contrary to the unanimous adoption of the IAS/IFRS, the European Commission (EC) left the member states to make individual decisions related to the adoption of the IFRS for SMEs (Kaya and Koch, 2015: 96). The EU member states should also consider requirements put forward by the EU Accounting Directive when making decisions to adopt the IFRS for SMEs or to create a new accounting standard based on IFRS for SMEs (EC (European Commission), 2013).

Other countries such as Turkey have also developed their own set of accounting for non-listed entities which is the Turkish Financial Reporting Standards for Large and Medium Size Entities (FRS for LMSE). These standards came into effect on 01/01/2018 as part of broad accounting reforms which took place within the process of integration into the EU. This accounting set developed by the Turkish Public Oversight, Accounting and Auditing Standards Authority (Turkish: *Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumu*, KGK) is somehow a simplification of the IAS/IFRS and therefore comply in some extent with those standards. The FRS for LME also complies with the EU Accounting Directives especially for small entities, consolidated financial statements, and individual financial statements (Öztürk et al., 2018a: 440).

In the OHADA (Organization for the Harmonization the Business Law in Africa; a French acronym) member countries, besides the adoption of the IASs/IFRSs for listed companies, the local OHADA accounting system (SYSCOHADA) has been revised in 2017 in order to move closer to the IASs/IFRSs even though it still remains a tax-base system. This set includes all entities from large to small ones which operate in the OHADA space.

In the last decade, we have seen an important growing interest of Turkey for the African continent leading to an important diplomatic presence on the continent with 42 embassies opened as of 2020 from merely 12 in 2009. Also, an increased number of African diplomatic missions in Turkey rising from 10 to 33 (Bayram, 2020: 42; Republic of Turkey Ministry of Foreign Affairs, n.d.). This fast-growing relationship also includes trade and investment. Over the last decade, trade volume has gone up from USD 5.4 billion to USD 26.2 billion in 2019 with Africa as a whole and from only around USD 1 billion in 2001 to over USD 5 billion in 2015 with the sub-Saharan African countries (Elem Eyrice et al., 2017: 12; *Recep Tayyip Erdogan on Twitter*, 2020).

Furthermore, a significant number of African countries with which Turkey signed trade and economic cooperation agreements increased to 39, while it was 23 in 2003. Also, over the last 15 years, Turkish contractors have also undertaken hundreds of projects that worth no less than USD 55 billion. The Turkish trade minister Ruhsar PEKCAN

(09/07/2018 to date) have even stated that "*Turkey and Africa's economic relations entered a golden era with Turkey's outreach to Africa that started in 2003*", during the Second Turkey-Africa Economic and Business Forum in Istanbul stressing over how important the Turkey-Africa relationship is perceived by officials (Bayram, 2020: 42; Şahin and Ergöçün, 2018).

Through these fast-growing ties and accelerated contact with Africa, Turkey has become along with well-established other countries, one of the new key players in Africa. Also, being at a strategic position between Asia, Europe, and Africa, Turkey is well placed to take advantage of the sub-Sahara African's rapid growth in recent years and making, therefore, the continent one of the strategic places it needs to establish a strong relationship for the future (Bayram, 2020: 42; Elem Eyrice et al., 2017: 15).

This rapidly growing bilateral and multilateral economic relationship between Turkey and African countries leads to the necessity of a mutual understanding of each other's business and financial environment. Therefore, the accounting system, as a fundamental tool for organizing and disseminating financial information, should be accessible and understood by players in both places. The lack of study related to this subject drove us to carry out this comparative analysis between the Financial Reporting Standards for Large and Medium Size Entities in Turkey and the OHADA Accounting System, a set for 17 sub-Saharan African countries, to explain, understand and highlight the differences between the two accounting sets.

Statement of the Problem

This study is a comparative analysis between the Turkish Financial Reporting Standard for Large and Medium-Sized Entities and the OHADA accounting system "SYSCOHADA" focused mainly on "*the normal system*" which is the equivalent of the Turkish set for Large and Medium-Sized Entities. An analysis through examples on the main similarities and differences between the two accounting systems will be conducted as well as the relative similarities and differences of each system with the IAS/IFRS.

Despite the growing business relationship between Turkey and Africa especially sub-Saharan Arica, there is little or no study about the accounting system of the two. This can be related to the lack of interest in the topic or other non-explained factors. However, given the new trajectory that has taken the Turkey-Africa relationship, understanding the financial reporting of those countries has become crucial. This study will help accounting practitioners and businesspeople in these areas to have a better knowledge of the accounting environment in general and particularly the accounting for non-listed companies.

Also, given our focus on large and medium-sized entities which are not subject to public accountability, and to draw the boundaries of this study, only the Financial Reporting Standard for Large and Medium-Sized Entities and the normal system of the OHADA accounting system which both are used for those categories of entities will be discussed. Therefore, the limitation of the study will be the relative exclusion of small entities which are regulated by the Financial Reporting for Small and Micro entities (FRS for SME) in Turkey, and the minimal treasury/cash system in the OHADA countries.

Purpose of the Study

The main purpose of this study is to understand the differences and similarities between the SYSCOHADA and the FRS for LMSE. Therefore, it will help get a good understanding of both the FRS for LMSE and the "*normal system*" of the SYSCOHADA which is the accounting set for medium and large entities in the 17 countries of the OHADA area. Also, on a topic basis, there will be a look at how each set addresses different accounting subjects and from there, an analysis of similarities and differences will be done. Additionally, by using financial statements prepared following the SYSCOHADA rules and restated to adapt them to the FRS for LMSE the most significant differences will be stressed.

Furthermore, this study is also aimed to fill the gap in the literature related to the comparative analysis between the two accounting sets and even more, help practitioners and businesspeople operating in these places to have a better understanding of the accounting regulations related to each one.

Expected Contributions of the Study

Despite the growing interest of Turkish companies in Africa and especially for the sub-Saharan Africa region, there has been little to no study in the literature on the accounting practices of the two areas. Even though the literature for both the FRS for LMSE and the

OHADA accounting system are relatively accessible separately, there is no comparative analysis approach study at all that has been carried out to date.

This lack of study on the topic has been the main trigger in carrying out this study. Therefore, this study will be a major academic contribution due to its newness, and also, the study will offer learning opportunities to those interested in understanding the two accounting systems. Furthermore, through this study, it will be possible for people doing business in those countries to read and understand financial statements prepared under both systems without any difficulty.

Methodology of the study

To understand the differences and similarities between the SYSCOHADA and the FRS for LMSE, three main approaches were used. First, a thorough literature review on the SYSCOHADA and the FRS for LMSE was conducted to help a better understanding of each of these accounting systems. Second, these accounting sets being somehow inspired by the IAS/IFRS, each of them was first compared to this prevalent international accounting regulation before being compared to one another in order to draw sound conclusions on differences and similarities between them. Finally, a case study using financial statements prepared following the SYSCOHADA rules and restated to comply with the FRS for LMSE financial statements was conducted. The case study was designed to highlight the main differences between the two accounting sets.

Structure of the Study

The study will be divided into three main chapters. The first chapter will focus on the understanding of the SYSCOHADA, the second chapter will give information on the FRS for LMSE, and the final chapter will be a comparison of the two accounting sets. And, to illustrate differences between the two accounting systems, financial statements prepared following the SYSCOHADA and restated to comply with the FRS for LMSE will be used to stress the main differences.

In the first part, there will be a presentation of the OHADA accounting system. Financial reporting under the SYSCOHADA rules according to the size and other categories such as listed companies, banks, and insurance companies will be explained. The normal system which is for large and medium entities will also be explained in detail.

In the second part of the study, the context of the Turkish accounting standardization will be given, and the FRS for LMSE will be explained, and a summary of each chapter will be drawn.

Finally, in the case study, there will be a comparative analysis to stress the main differences between the two accounting sets. Based on the differences revealed by the comparison of financial statements, conclusions will be drawn about how far or close are the two accounting sets.

CHAPTER 1: ACCOUNTING SYSTEM OF THE ORGANIZATION FOR THE HARMONIZATION OF BUSINESS LAW IN AFRICA (SYSCOHADA)

In this chapter, the OHADA accounting system will be discussed in several aspects. First, a brief history and structure of the set will be given. Second, financial reporting under the SYSCOHDA will be discussed. Third, the SYSOHADA normal system as the focus of our study will be explained in depth followed by the presentation of the OHADA chart of accounts and a table of comparison of the SYSCOHADA chapters and the IAS/IFRS.

1.1. The OHADA Accounting System (SYSCOHADA)

The OHADA accounting system is the accounting set that governs accounting practices in seventeen (17) Sub-Saharan African countries from west and Central Africa mainly former French colonies: Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Republic of the Congo, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal, Togo, Democratic Republic of Congo, which are signatory of the OHADA treaty. The treaty of October 1993 in Port-Louis, Mauritius modified by the Québec treaty of October 2008 aimed to promote economic cooperation between member countries by harmonizing their business law (OHADA, 2008: 1–2), and took over from the OCAM (the African and Malagasy Union; in French: Organisation Commune Africaine et Malgache) treaty (1961-1985) the first regional organization established by the newly independent French-speaking African countries.

With changing paradigms and the failure of the OCAM accounting set adopted in 1970 further revised in 1979 and 1985, the necessity of establishing a more dynamic organization lead to the creation of the OHADA (Degos et al., 2019: 82). This new organization as a pan-African organization is born with the mission of modernizing and harmonizing business law in Africa while encouraging to bring henceforth the accounting principles within its framework.

The initiative of the OHADA member countries resulted to a new set of accounting was developed in 2000 as the uniform act on the organization and harmonization of accounting for companies known as the OHADA Accounting System (SYSCOHADA) (OHADA, 2000: 2). This new set was adopted from 01/01/2001 and aimed to harmonize accounting rules across member countries in replacement of the OCAM accounting set which had failed to survive due to local differences from one country to another (Degos et al., 2019: 83).

However, with the existing set of accounting, the SYSCOA (Accounting System for West African Countries) developed less earlier than the SYSCOHADA, 1998 by the UEMOA (West African Economic and Monetary Union; UEMOA in French) countries, grouping 8 out of the 17 of the OHADA members and using the same currency, the CFA franc, although very similar to the existing accounting sets (the OHADA accounting system and the OCAM accounting set) made difficult for the OHADA to fulfill its primary goal of harmonizing the accounting practices. The status quo lasted until 2017 with the enactment of the new Uniform Act on Accounting Law and Financial Information (AUDICIF) in January 2017. This recent development in the OHADA space was a milestone as it marked the end of the SYSCOA and mandate all to use the SYSCOHADA as the only accounting set in all member countries as stated in the 5th article of the AUDICIF. Also, in the new SYSCOHADA all listed companies and those resorting to public offering should prepare their financial statements according both the SYSCOHADA rules and those of the IAS/IFRS (Degos et al., 2019: 86).

It should be mentioned that the SYSCOHADA excludes from its scope, banks, insurance, and reinsurance companies as well as some companies in the public sector, those entities are under specific accounting rules specified by the relevant organization that regulate their sector (AUDCIF & SYSCOHADA, 2017: 14). Also, the SYSCOHADA, in line with the continental European approach of accounting from which it was inspired, is a strongly rule based set (Degos and Souleymanou, 2018: 12)**.**

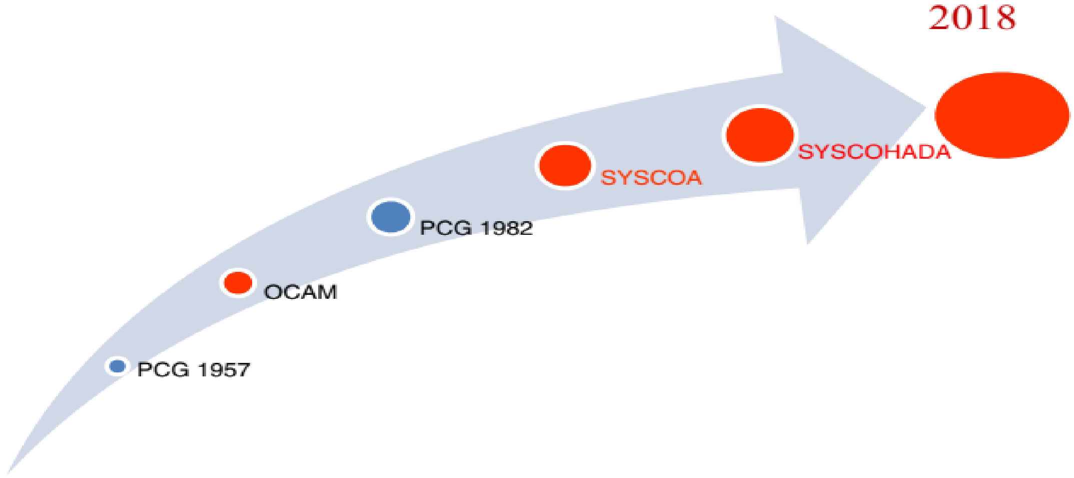

Figure 1: The SYSCOHADA evolution figure
Source :(Degos et al., 2019: 13)

In the figure 1, as a summary of the SYSCOHADA accounting set evolution, it can be seen the roots of the OHADA accounting was the French GAAP (PCG-Plan Comptable Générale in French which was developed in France in the 1957s. This set has evolved over the years from the OCAM set to the latest version of the SYCOHADA which has made a partial adoption of the IFRS/IAS.

1.1.1. Structure of the SYSCOHADA

The document that regulates accounting practices was adopted on January 2017 in Brazaville (CONGO) as the Uniform Act on Accounting Law and Financial Information (AUDICIF) with the OHADA accounting system added to it, by the Council of Ministers of all member countries (AUDCIF & SYSCOHADA, 2017: 13)**.** The documents of 1242 pages is divided into two main parts. First, the Uniform Act on Accounting Law and Financial Information (AUDICIF) which is the law that frame accounting practices for all 17 member countries of the OHADA space. This first part is dived into four main titles. The four titles of the Uniform Act on Accounting Law and Financial Information are as follow:

Title I: Personal accounts of entities (individuals and legal entities)

Title II: Consolidated and combined financial accounts

Title III: Penal provisions

Title IV: Transitional and final provisions

Each of these respective titles is divided into chapters and articles for further details on the accounting law.

The second part of the document being about the OHADA accounting system gives all necessary information about the preparation and disclosure of financial statements according to the OHADA requirements. This part is divided itself into two main parts. The first one being the OHADA Generally Accepted Accounting Principles (GAAP; PCGO) which deals with the accounting for individual entities. This part has 7 different titles each one dealing with a specific subject of the OHADA accounting. The second part of the SYSCODA is related to consolidated and combined financial statements according to the OHADA rules. The second part discussed over two titles with the 12th title for consolidated financial statements and the 13th title for the combined financial statements.

The SYSCOHADA deals with all aspect of the accounting and gives models of statements that should be followed for the disclosure of financial statement. However, the SYSOHADA does not rule on any IFRS/IAS related matter, except the requirement for listed companies to publish IFRS/IAS compliant financial statements, and therefore fully comply with standards published by the IASB. Thus, for entities subject to both the SYSCOHA and the IFRS/IAS, they should disclose financial statements that comply with the OHADA regulations for tax purpose and the IFRS/IAS as directed by the IASB for the financial market (AUDCIF & SYSCOHADA, 2017: 16).

1.1.2. The AUDCIF and SYSCOHADA Chapters

Table 1: Titles and Chapters of the AUDCIF and the SYSCOHADA

Uniform Act on Accounting Law and Financial Information (AUDICIF)		
Title I: Personal accounts of entities (individuals and legal entities)		
Chapter 1	General Provision	Article 1 to 13
Chapter 2	Accounting Organization	Article 14 to 24
Chapter 3	Annual Set of Financial Statements	Article 25 to 34
Chapter 4	Rules of Evaluation and Determination of The Result	Article 35 to 65
Chapter 5	Evidential Value of Documents, Control of Accounts, Collection, And Publication of Accounting Information.	Article 66 to 73
Title II: Consolidated and combined financial accounts		
Chapter 1	Consolidated Accounts	Article 74 to 102
Chapter 2	Combined Accounts	Article 103 to 110
Title III: Penal provisions		Article 111
Title IV: Transitional and final provisions		Article 112 and 113

Source: AUDCIF & SYSCOHADA, 2017

Table 2: Titles and Chapters the OHADA Accounting System

The OHADA Accounting System (SYSCOHADA)	
First Part: OHADA General Plan of Accounting (PCGO)	
Title V: Conceptual Framework	
Chapter 1	Definition and Main Users of Financial Statements
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Chapter 3	Combination Scope
Chapter 4	Combination Rules and Methods
Chapter 5	Presentation and Control of the Combined Financial Statements

Source: AUDCIF & SYSCOHADA, 2017

1.2. Financial Reporting Under the SYSCOHADA

The SYSCOHADA although being a single set of accounting, it has different levels of presentation of the financial statements. Those levels depend on an entity's size and whether it is a listed/public entity or not. In this part, all different levels of presentations in the SYSCOHADA will be discussed and conditions related to each one will be given.

1.2.1. The IFRSs-IASs in the SYSCOHADA

In the recent years, globalization has led to a spectacular increase in the global trade which has resulted to an important increase in cross border investment leading to the search for better opportunities by investors regardless the country or place. This momentum has led to a strong need of a common accounting set that would be used as the common reporting tool in preparing and disclosing financial statements for each company around the world. To fulfill this need, the IASC (International Accounting Standards Committee) was established on 29 June 1973 with the goal of developing globally acceptable accounting standards (Deloitte Touche Tohmatsu, n.d.-b).

Later on, arising difficulties related to the implementation of the standards developed by the IASC (Ünaldi, 2010: 5) resulted to the necessity of having a more dedicated and independent organization that will carry on the work of the IASC by improving the available standards, developing new ones and ensuring the applicability of those standards**.** As a result, the IASB (International Accounting Standards Board) was established in April 2001 (Kirk, 2009: 1)**.** Since then, the IASB remains the only organization responsible for developing, publishing, and improving the IASs/IFRSs. To date there is over forty standards that has been published with their related interpretations since the creation of the IASC later the IASB.

Nowadays, the IASs/IFRSs has gained a huge interest around the world and have been considered by some researchers as an unavoidable trend with a ''significant momentum for eventual adoption of IFRS worldwide, including the US (Smith, 2008: 29). All countries are facing the status quo by either adopting them or by converging their national standards towards international standards. The IASs/IFRSs are now applicable in some way to another by over 150 countries around the world particularly for large and listed companies (Cavlak and Ataman, 2017: 154; Deloitte Touche Tohmatsu, n.d.-c; IFRS Foundation, 2018).

The adoption of the IFRS/IAS across the African continent In the OHADA member countries, despite the lobbying to promote transparency and good governance by the IMF (International Monetary Fund) and the WB (World Bank) both very important partners for countries in the continent, there has been some resistance in adopting the international standards in these countries mostly French speaking ones contrary to English speaking countries which have adopted the IASs/IFRSs earlier (Boolaky et al., 2020: 4; Degos et al., 2019: 5; Elad, 2015: 91). However, with the opportunities, related to the adoption of the IASs/IFRSs such as developing a dynamic stock market, attracting foreign investment all indispensable resources that will help their economies to flourish and be more competitive on the international stage, the OHADA member countries have decided in 2017 to both revise the OHADA accounting system by making it more in line with the IASs/IFRSs and also adopt partially the those standards for listed companies and publicly traded ones.

However, despite these last improvement and openness, the SYSCOHADA remains a strongly legal based system and the informal sector in the member countries is still very significant. All those setbacks combined can be seen as major factors that will further delay a full adoption of the IFRS/IAS by the OHADA countries. Nonetheless, the conclusion of Elad (2015: 22) in his study suggesting that the adoption of the IFRS/IAS in the OHADA space will occur only if the SYSCOHADA is abandoned due to fundamental divergences between the two accounting sets, is being challenged by the OHADA standards setters with the last reforms that took place in 2017.

In summary, the latest update in the OHADA accounting system has been intended for member countries to open their local financial market and gain more attractiveness to outside investors.

1.2.1.1. Entities Under the Scope of Both the IASs/IFRSs and the SYCOHADA

The initiative of changes that have been taken from 2017 by the OHADA member countries given the global context with the rising IASs/IFRSs, resulted to the adoption of the AUDCIF and the revised SYSCOHADA with a partial adoption of the IASs/IFRSs for listed companies. This new set of accounting took effect on 01/01/2018 for personal account and on 01/01/2019 for consolidated and combined accounts and also financial statements under the IASs/IFRSs (OHADA, n.d.-b).

According to the 8th article of the new Uniform Act on Accounting Law and Financial Information all listed companies of the OHADA member countries as well as public companies not traded on a stock exchange should prepare their financial statements both as specified by the IASs/IFRSs and also according to the SYSCOHADA rules (AUDCIF & SYSCOHADA, 2017: 15). In other words, companies subject to the IASs/IFRSs should prepare two different sets of financial statements. Firstly, a set of financial statements according to the IASs/IFRSs which will be intended solely to the stock market in order to fulfill the needs of investors in terms of comparable and reliable financial information to base their investment decision. Secondly, another set of financial statements intended for tax purpose and other stakeholders. Thus, financial statements prepared under the SYSCOHADA are considered to be the base of all legal obligations for a company operating in the 17 member countries of the OHADA space.

Some entities however, such as credit institutions (banks and related organizations), micro finances, insurance and reinsurance companies, social security organizations and non-profit organizations are as specified by the 5th article of the AUDCIF in its 3rd paragraph out of the scope of the SYSCOHADA. Those companies are generally regulated on the local level (country) and following the specificities of each sector.

All entities not mentioned in this list of exception are under the regulation of the SYSCOHADA and regardless the size and other characteristics should comply with the SYSCOHADA rules when preparing their financial statements. However, in order to ensure a practical application of accounting according to the needs of each entities considering their two different levels of disclosure were introduced in the new set. These levels of presentation are called ‘’systems’’ in the OHADA regulation which are the ‘’ normal system’’ and the ‘’ minimal treasury system’’ with the lightened system for medium entities suppressed in the new SYSCOHADA in 2017 for being confusing and ununderstood by accounting practitioners (Tchokote, 2019: 469) and also due an insignificant number of intermediary entities (Degos and Souleymanou, 2018: 13). The normal system is entitled to regulate the accounting for large and medium sized entities while the minimal treasury system is intended for small entities in other world all entities not qualified to present their financial statements according to the normal system.

However, it is worth mentioning that the two systems instituted by the SYSCOHADA are not two different sets of accounting but only one set that according to the size of the entity has a different level of requirements in terms of financial statements that should be prepared and published and other obligations such as the social balance sheet or the management report for large entities.

In the OHADA space, all entities except for those that are under specific regulations are within the scope of the SYSCOHADA. Furthermore, listed and publicly traded entities are subject to the both the SYSCOHADA and the IASs/IFRSs.

1.2.1.2. Reasons for the Adoption of the IASs/FRSs.

As mentioned earlier, with globalization and changing paradigms and also the need for the OHADA member countries to take advantages of the opportunities brought along by the IASs-IFRSs have finally encouraged those countries to take a step forward to trend of a global set accounting that would help ensure comparability, transparency and high quality of financial statement of all companies around the world regardless of where those entities operate. Therefore, even though the economic benefits being a reason of adopting the IAS/IFRS have been questioned by some researchers (Chua and Taylor, 2008: 464; Zeghal and Mhedhbi, 2006: 384) this reason cannot be ignored in the decision of OHADA policymakers to move forward in the partial adoption of the IAS/IFRS in a context of expanding financial market (Degos and Souleymanou, 2018: 6)**.**

Also, multinational companies along with global firm audits and international institutions such as the IMF and WB, which are very important partners of African countries in general as loan and aid providers have been backing for long time the adoption of the IASs-IFRSs across the continent to promote transparency in the financial and public sector and therefore somehow put pressure on the public and political institution of those countries for the adoption of these standards (Boolaky et al., 2020: 4; Chua and Taylor, 2008: 467; Degos et al., 2019)**.** In other world as a hidden agenda, these institutions have been promoting the use of the IASs/IFRSs in order to promote transparency and high quality of financial statements in developing countries specially in Africa (Degos et al., 2019: 87; Elad, 2015: 4)**.**

Furthermore, the will of the OHADA member countries to develop a dynamic and attractive stock market has as well been a very important key factor in the partial adoption of the IASs/IFRSs in 2017. And, as many studies have suggested, the predisposition for developing countries to adopt the IASs/IFRSs among other factors such as education level, culture and economic growth, the existence of a capital market is significantly correlated (Stainbank, 2014: 85; Zeghal and Mhedhbi, 2006: 384).

However, despite the relative size of the stock exchanges in the OHADA space which comprise seventeen (17) countries, the two regional stock exchanges are among the top fund raisers in sub-Saharan African for the last decade. The Bourse Régionale des Valeurs Mobilières SA (BRVM) with $400m raised is the second fund raiser behind Nigeria (PricewaterhouseCoopers, 2019: 16). The BRVM is a regional stock exchange for the West African countries which are members of the regional organization the UEMOA and using the Franc CFA as currency. It comprises 8 out the 17 OHADA countries and was established in 1998. Despite it relatively small size, to date, it is among if not one of the biggest regional exchange stocks in Africa with around 60 listed companies. The second regional stock exchange in the OHADA space is the BVMAC (Central Africa Stock Exchange) for central African countries member of the CMAC (Economic and Monetary Community of Central Africa; Communauté économique et monétaire de l'Afrique centrale in french), which comprise 6 countries (Cameroon, Central Africa, Chad, Gabon, Equatorial Guinea and Congo) using also the same currency as the UEMOA countries. The BVMAC was created in 2003 to promote investment in the member countries (BVMAC, n.d.). In 2019, the BVMAC merged with the DXS (Douala Stock Exchange) (APANEWS, 2019), which was the third stock in the whole OHADA space. There are around 4 companies listed on the BVMAC along with 17 obligations (EcoMatin, 2019).

As we have seen, the partial adoption of the IASs/IFRSs in the OHADA space is the combination of two main factors which are internal and external. The internal factors in one hand can be summarized as the necessity and the will of countries to attract international investors by developing an internal dynamic stock market which comply with the international trend of accounting, promoting quality financial statements and ensuring comparability of information to enhance quality decision making. External factors in the other hand comprise pressure from external institutions such as the IMF, the WB and other multinational companies that have either directly or indirectly influenced the process towards the partial adoption of the IASs-IFRSs.

1.2.1.3. List of All Issued IASs/IFRSs Standards

In the table 3 and 4 below there will be a list of all current IASs/IFRSs standards issued or amended by the IASB to date.

Table 3: Table of IFRSs Published by the IASB

Standard	Title	First issuance year	Last amendment/revision year
Conceptual Framework for Financial Reporting		1989	2018
IFRS 1	First-time Adoption of International Financial Reporting Standards	2003	2020
IFRS 2	Share-based Payment	2004	2016
IFRS 3	Business Combinations	2004	2020
IFRS 4*	Insurance Contracts	2004	2020
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	2004	2014
IFRS 6	Exploration for and Evaluation of Mineral Assets	2004	-
IFRS 7	Financial Instruments: Disclosures	2005	2020
IFRS 8	Operating Segments	2006	2013
IFRS 9*	Financial Instruments	2009	2020
IFRS 10*	Consolidated Financial Statements	2011	2015
IFRS 11	Joint Arrangements	2011	2017
IFRS 12	Disclosure of Interests in Other Entities	2011	2017
IFRS 13	Fair Value Measurement	2011	2013
IFRS 14	Regulatory Deferral Accounts	2014	-
IFRS 15*	Revenue from Contracts with Customers	2014	2016
IFRS 16	Leases	2016	2020
IFRS 17*	Insurance Contracts	2017	2020

Source: (Deloitte Touche Tohmatsu, n.d.-a)
*IFRS 9 (2014) replaced all previous standards related to financial instruments.
*IFRS 10 superseded IAS 27 (2008)
*IFRS 17 will supersede IFRS 4 as of January 2023
*IFRS 15 superseded IAS 11 and IAS 18 as of 2018

Table 4: Table of IASs Published by the IASC, Endorsed and Amended by the IASB

Standard	Title	First issuance/reissuance year	Last amendment/revision year
IAS 1	Presentation of Financial Statements	2003	2020
IAS 2	Inventories	2003	-
IAS 7	Statement of Cash Flows	1992	2016
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	2008	2018
IAS 10	Events after the Reporting Period	2003	-
IAS 12	Income Taxes	1996	2017
IAS 15*	Information Reflecting the Effects of Changing Prices	2003	-
IAS 16	Property, Plant and Equipment	2003	2020
IAS 17*	Leases	2003	2009
IAS 19	Employee Benefits	2004	2018
IAS 20	Government Grants and Disclosure of Government Assistance	2008	-
IAS 21	The Effects of Changes in Foreign Exchange Rates	2003	2005
IAS 23	Borrowing Costs	2007	2017
IAS 24	Related Party Disclosures	2003	2013
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1987	1994
IAS 27**	Consolidated and Separate Financial Statements	2003	2010
IAS 27	Separate Financial Statements	2011	2014
IAS 28*	Investments in Associates	2003	2008
IAS 28	Investments in Associates and Joint Ventures	2011	2017
IAS 29*	Financial Reporting in Hyperinflationary Economies	2008	-
ISA 31*	Interests in Joint-Ventures	2003	2008
IAS 32	Financial Instruments: Presentation	2003	2012
IAS 33	Earnings per Share	2003	-
IAS 34	Interim Financial Reporting	1998	2014
IAS 36	Impairment of Assets	2004	2013
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1998	2020
IAS 38	Intangible Assets	2004	2014
IAS 39	Financial Instruments: Recognition and Measurement	2003	2020
IAS 40	Investment Property	2003	2016
IAS 41	Agriculture	2008	2020

Source: (Deloitte Touche Tohmatsu, n.d.-a)
*IAS 15, withdrawn in 2005.
*IAS 17, replaced by the IFRS 16 in 2019.
*IAS 28 (2003), superseded by the IAS 28 (2011)
*IAS 29, issued first in 1989, reformatted in 1994 and reissued in 2008.
*IAS 31, reissued in 2003, replaced by the IFRS 11 and IFRS 12
**IAS 27 (2008) and (2011), superseded by the IFRS 10

1.2.1.4. Required Financial Statements in the IASs/IFRSs

According to the IAS 1, companies that are subject to the IASs/IFRSs are required to publish on an annual basis a complete set of financial statements. Those statements include, a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows and related notes for each financial statement. Notes give a full explanatory and all other necessary information that would ensure a better and complete understanding of the financial statements.

a. Statement of financial position (balance sheet)

The statement of financial position widely known as balance sheet is a ‘’snapshot’’ of a company’s financial situation at a specific given time either at the end of a month, a quarter or a year (Weygandt et al., 2019: 23)**.** The balance sheet of a company therefore gives us an understanding of its financial position by showing its assets, liabilities, and equity at a specific period.

b. Statement of profit or loss and other comprehensive income

The statement of profit or loss known as the income statement is a financial statement intended to present both revenues and expenses as well as the resulting net profit or loss for a specific given period (Weygandt et al., 2019: 21). The income statement is a key element to assess a company’s financial performance over a given period as it comprises element such as income and expenses directly related to an entity’s performance as mentioned in the conceptual framework (IASB, 2010). However other comprehensive income can be defined as "items of income and expense (including reclassification adjustments) that are not recognized in profit or loss as required or permitted by other IFRSs" [IAS 1.7**]** (IASB, 2003: 1)**.**

c. Statement of cash flows

Presented according to the IAS 7, issued in 1992 as Cash Flow statements by the IASC and reissued by the IASB in 2001, retitled in 2007 as Statement of Cash Flows, this statement is aimed as stated in the ‘‘*to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of* *cash flows which classifies cash flows during the period from operating, investing and financing activities*'' (IASB, 2001: A998). Therefore, the Statement of Cash Flows helps a company to understand where its cash flows come from and where they go at same time which is very important to optimize resources and maybe capitalize on strengths.

d. Statement of changes in equity

The statement of changes in equity presents both increases and decreases in the financial position of a company over a given period. It includes total comprehensive income for a period, the effects of any retrospective application of accounting policies or restatements (IASB, 2003: 1)**.**

e. Notes to the financial statements

Notes gives additional information about a company's accounting policies to ensure a full understanding and disclosure of financial statements. They are considered to be a narrative explanation needed to clarify financial information included in financial statements. According to the IAS 1, notes should be presented in a ''*systematic*" way meaning that they should comprise in detail all relevant information for a full understanding of financial statements (IASB, 2003: 1).

1.2.2. A Brief Overview of the Normal System of the SYSCOHADA

The normal system in the OHADA accounting is a part of the accounting set that are intended for all companies included in the OHADA accounting framework. As stated in the 11th article at the third paragraph of the AUDICIF: ''*All entities are, barring exceptions related to their size, subject to the normal system for the presentation of their financial statements and for keeping their accounts.*'' (AUDCIF & SYSCOHADA, 2017: 16). Small sized entities are excluded from obligations related to the normal system and are therefore subject to the minimal treasury system in accordance with the article 13 of the AUDICIF. The normal system of the SYSCOHADA being the main focus of this study, will be discussed further in the related subheading.

1.2.3. The Minimal Treasury System of the SYSCOHADA

The minimal treasury system is the accounting rules set by the OHADA and applied to small entities under the scope of the SYSCOHADA. Entities that are subject to this system are defined by their annual total turnover with tax excluded as stated in the 13rd article of the AUDCIF (2017). The minimal treasury system shares the same set of accounting with the normal system. However, entities subject to the minimal treasury are subject to a different level of exigence. As an example, the normal system requires entities to present at least four (4) financial statements (the Balance sheet, the Income statement, the Statement of cash flows and Note annexes) according to the 26th article of the AUDICIF. The minimal treasury system however requires only three (3) financial statements (the Balance sheet, the Income statement, and notes) in accordance with the article 28th. Other differences can be related to the level of needed information in the preparation of financial statements with more detail required in the case of the normal system. Entities subject to the minimal treasury system can however chose whether to present their financial statements according to the 13rd article of the AUDCIF flowing the normal system or the minimal treasury system.

According to this article, the criteria for an entity to be considered as small one is based on the total annual turnover with tax excluded and are specified as follows:

- **Commercial entities:** An annual turnover less than 60 million CFA francs (USD ~100,000) or the equivalent amount in the currency of the country.
- **Handcrafted or similar entities:** An annual turnover less than 40 million CFA francs (USD ~70,000) or the equivalent amount in the currency of the country.
- **Service entities:** An annual turnover less than 30 million CFA francs (USD ~50,000) or the equivalent amount in the currency of the country.

In the minimal treasury system as well as the normal system, all financial statements are presented according to a given model of presentation in accordance with the accounting system (the normal system or the minimal treasury system) that the entity is subject to (AUDICIF, article 25). Let us mention here that in the SYSCOHDA, notes are considered to be a financial statement on its own.

1.2.3.1. Financial Statements Under the Minimal Treasury System

Financial statements (Balance Sheet, Income Statement and Note annexes) according to the minimal treasury system are prepared according to models given in the SYSCOHADA. Therefore, each entity should follow those models when preparing their annual financial statements. Here bellow, table 5 and 6 are the models of financial statements (Balance Sheet and Income Statement) to be used by small entities under the minimal treasury/cash system.

Table 5: Model of Balance Sheet Under the Minimal Treasury System of the SYSCOHADA

Entity's name: ………. Fiscal year end: ......

Identification number: …… Duration (in month) …..

Balance sheet SMT as of 31 December N

Assets	Note	Amount		Liabilities	Note	Amount	
		N	N-1			N	N-1
Fixed assets	1			Operator account	1		
Inventories	2			Annual profit	2		
Receivables and other debtors	3			Loans	3		
Cash				Payables and other creditors			
Bank							
Total assets				**Total liabilities**			

Source: (AUDCIF & SYSCOHADA, 2017: 1078)

Table 6: Model of Income Statement According to the Minimal Treasury System of the SYSCOHDA

Income statement SMT as of 31 December N

Items	Note	Amount	
		N	N-1
Incomes from sells or service provisions	4		
Other incomes	4		
Total Income	**A**		
Purchases expenses	4		
Rents expenses	4		
Salaries expenses	4		
Taxes expenses	4		
Interest expenses			
Other activity expenses	4		
Total Expenses	**B**		
Balance: Surplus (+) or Insufficient (-) of Income (C=A-B)	**C**		
- Inventory change N/N-1 **(D)**	2		

- Receivables change N/N-1 **(E)**	3		
+ Payables changes N/N-1 (**F**)	3		
Depreciation and amortization	**G**		
Annual Result (H=C-D-E+F-G)	**H**		

Source: (AUDCIF & SYSCOHADA, 2017: 1078)

As regards to notes, there are four main note models with additional information on financial statements prepared according to the minimal treasury system. Those models are presented here bellow in table 7, 8, 9.

First, detailed information or follow-up on equipment, furniture, and deposits.

Table 7: Note 1: Follow-Up on Equipment, Furniture and Deposits

Entity's name: ……….   Fiscal year end: ......

Identification number: ……   Duration (in month) …...

Date	Item	Amount	Release date	Disposal price

Source: (AUDCIF & SYSCOHADA, 2017: 1078)

Second, information about the state of inventories. This note gives information on the state of the beginning and final inventory as well as other related details.

Table 8: Note 2: State of Inventories

Entity's name: ……….   Fiscal year end: ......

Identification number: ……   Duration (in month) …...

State of inventories as of 31 December N

Reference	Item	Quantity	Unit price	Amount
VALUE OF THE ENDING INVENTORY				
VALUE OF THE BEGINNING INVENTORY				

Source: (AUDCIF & SYSCOHADA, 2017: 1081)

Third, information about payables and receivables are given in the Note 3. Information here are related to the relation between an entity and its clients or suppliers.

Table 9: Note 3: State of Receivables and Payables not yet due as of December 31

Entity's name: ……….   Fiscal year end: ......

Identification number: ……   Duration (in month) …...

State of receivables and payables not yet due as of December 31

DATE	NAME OF CLIENT	Amount on 31 December	Amount on 1st January	Change %
	TOTAL OF RECEIVABLES			
DATE	**NAME OF SUPPLIER**	**Amount on 31 December**	**Amount on 1st January**	**Change %**
	TOTAL OF PAYABLES			

Source: (AUDCIF & SYSCOHADA, 2017: 1082)

Fourth, as the final model note under the minimal treasury system, it gives further information on the cash flow or treasury for an entity subject to the minimal treasury system of the SYSCOHADA. This note comprises a bookkeeping that requires two separate booking journals, one for the cash book and another for each bank (AUDCIF & SYSCOHADA, 2017: 1083)**.** Another information in this note includes a journal of follow-up of non-ordinary receivables and another for debts to be paid.

1.3. The Normal System of the SYSCOHADA

The normal system (Système Normale in French) is a level of presentation of the financial statements under the SYSCOHADA. All entities not included in the minimal treasury system (the level of presentation of financial statements for small entities) framework are part of the normal system. Therefore, entities that can be defined somehow as medium, big, or large should comply with this level of presentation. The SYSCOHADA is prepared based mainly on this level of presentation and the minimal treasury/cash system is somewhat a simplification of this level.

In this part, the normal System will be discussed in the light of the SYSCOHADA as a whole.

1.3.1. An Overview of the “Normal System” of the OHADA Accounting System

The OHADA accounting system has established two accounting system as stated in the 11th article of the AUDICIF. The normal system for large and medium sized entities and the minimal treasury system for small and micro sized entities. According to the third paragraph of the 11th article, all entities are subject to the normal system with an exception for those that do not meet the annual turnover criterion clearly stated in the 13rd article which differs from one sector to another. However, small entities can choose to present their financial statements according to the normal system. In that case, they should follow all requirements related to the disclosure of financial statements under the normal system.

The annual turnovers stated in the 13rd article for small companies are considered as the maximum amount below which an entity is considered de facto as a small entity. Therefore, any entity that does have an annual turnover lower than the stated amount is under the regulation of the minimal treasury system. In the contrary, any entity that makes an annual turnover equal or over the specified amount in its sector is under the regulation of the normal system.

The revised SYSCOHADA 2017 does not make any difference between large and medium sized entities as does the SYSCOHADA 2000 which had three different systems: the minimal treasury system for small entities, the lightened system (**less used and misunderstood**) for medium entities which has been suppressed by the new SYSCOHADA (Tchokote, 2019: 469)**.**

1.3.2. The Conceptual Framework of the SYSCOHADA

The SYSCOHADA has a conceptual framework included in the second part of the uniform act on accounting of the OHADA. The SYSCOHADA conceptual framework is discussed in the 5th title over five (5) different chapters which are titled as follows: Chapter 1, definition and main users of the financial statements (Définition et principaux utilisateur des états financiers in French); Chapter 2, Structure and application field of the conceptual framework (Structure et champ d’application du cadre conceptual in French); Chapter 3, objectives and basic principles of financial statements (Objectifs et principes de base des états financiers in French); Chapter 4, definition and structure of financial statements (Définition et structures des états financiers in French); Chapter 5, evaluation and bookkeeping rules of financial statements elements (Règles d'évaluation et de comptabilisation des éléments des états financiers in French).

The SYSCOOHADA conceptual framework despite being differently designed and having some limitations along with some differences with the IASB's conceptual framework, they remain very close to each other (Degos et al., 2019: 86; Degos and Souleymanou, 2018: 7). At the same time, the SYSCOHADA conceptual framework covers aspects such as: the development of new norms, arbitrate between conflicting norms, interpretation of financial statements, resolving questions not covered by the norms and helping practitioners in preparing financial statements (Degos and Souleymanou, 2018: 22).

1.3.3. Financial Statements Under the SYSCOHADA Normal System

The normal system of the SYSCOOHADA requires all companies subject to it to prepare a set of financial statements as listed in the 8th and 26th articles of the AUDCIF comprising: A balance sheet, an income statement, a statement of cash flows and notes (AUDCIF & SYSCOHADA, 2017: 15–22). However, as explained in the 25th article, all financial statements except notes, should be presented following models given in the OHADA accounting system and differ according to the size of the entity. Therefore, small entities are required to prepare their financial statements according to models related to them and medium and large entity are required to prepare their financial statements according to models related to their respective system.

The 9th title, Presentation of the annual financial statements of the normal system, (Présentation des états financiers annuels du système normal in French) of the new AUDCIF and SYSCOHADA of 2017, discuss over seven (7) chapters the basis upon which financial statements should be prepared. In these chapters, models of financial statements have been given as references that entities should be using when preparing their annual financial statements in accordance with the normal system.

The first chapter of this part titled as: General provisions related to the presentation of financial statements (Disposition générales relatives à la présentation des états financier; French) is divided into two sections: Firstly, a discussion on objective and structure of financial statements (Objectif et structure des états financiers in French) and secondly, a discussion on general presentation rules (Règles générales de présentations in French).

From the first section, the objective of financial statements are defined as being (AUDCIF & SYSCOHADA, 2017: 980): << *to provide useful information on assets, financial position (Balance sheet), performance (Income statement) and variations in the cash position (Statement of Cash flows) of an entity in order to meet the needs of all the information users.*>> As for the structure it stress the number of financial statements as whole that an entity is required to present according to the normal system which are: A balance sheet, an income statement, a statement of cash flows and notes. Those statements should be presented to ensure a comparability on an annual basis and with other entities.

In the second section of the chapter regarding the general presentation rules, they are related to:

Firstly, assumption underlying the disclosure of the financial statements. Those assumptions are related to the going concern principle stating that financial statements should be presented on a continuity basis implying that the entity will continue running its activities for the next fiscal years. However, in the contrary, when the assumption of going concern is not meet, that should be mentioned and justified. Also, all necessary complementary information should be given.

Secondly, about the financial relevance, financial statements are required to include all relevant information which are supposed to have any impact on financial statements users' decision making.

Thirdly, on the reliability of financial statements, it is ensured by two level of financial statements disclosure which are: the Normal system and the Minimal treasury system; strict application of the SYSCOHADA accounting principles such as transparency, non-compensation between liabilities and assets items in the balance sheet, income and expense items in the income statement which is forbidden with only legal based compensation admitted; lastly, the annual disclosure of financial statements.

Fourth, provisions common to all financial statements require financial statements to bear specific information about the entity such as: the name with all other identification means, closing date and the period covered by the financial statements, the currency that was used; such information should appear on each page of the financial statements. The balance sheet, income statement and Note annexes are broken down into headings and items. Also, for each of them, figures for the previous year must be disclosed as well. Furthermore, note annexes are an extra source of information and should not be including information already in the balance sheet, income statement or statement of cash flows. Also, each section/column of financial statements, includes one or more accounts and is identified by an alphabetical code such as AE, AF, AG… Finally, the disclosure of financial statements must be accompanied by the audit opinion of an independent professional.

In the second chapter titled as: General information on the entity (Informations générales sur l’entité in French), it gives models and details on all information that should be provided about the identity of an entity. Such information is needed to be provided on each financial statement and should ensure the answering of the following questions for the financial statements’ users and all stakeholders: which is this entity? And what fiscal year does the financial statements are about? This kind of information is provided first, on the cover page as: the closure date of accounts, the entity's name, full address as well as its tax identification number and other useful information. In the second page referred as FICHE R1, information such as the fiscal year, the accounts closure date for both N+1 and N-1 are given. Also, the core business, the name and signature of the general director and the person who has prepared the entity's financial statements. In the following page, information such as: the entity’s legal status, its tax system or in other word the tax system that the entity is subject to, the country where it headquarters is established, number of subsidiaries within and outside the country where a different accounting system is applied, the starting fiscal year in the country, and finally information about the control of the entity. Other additional information is about first, the activities performed by the entity on a top-down basis of its turnover or its added value. Second, the total annual turnover for each activity and lastly each one. In the third page referred as FICHE R3, it gives information about the entity’s management personnel such as, the CEO (chief executive director), general manager, general administrator manager and so on and so forth. Also, the names and addresses of members of the board of directors. The fourth page, titled as FICHIER 4, gives a table of all notes that are used in the financial statements. The SYSCOHADA has established a 36 notes table format and only notes that contain additional information on financial statements that should be part of the disclosed financial statements (AUDCIF & SYSCOHADA, 2017: 84–89)**.**

1.3.3.1.The Balance Sheet of the Normal System

The third chapter of the 9th title of the SYSCOHADA which ‘’the balance sheet of the normal system’’, is divided into two different sections. The first one is about general rules of the balance sheet presentation and the second is about the balance sheet models that entities should follow to prepare their financial statements.

On the general rules of presentation of the balance sheet in the first section of the chapter, principles of the balance sheet, description of items, as well as the analysis of the financial structure of an entity's balance sheet have been discussed.

As for principles in the first section of the chapter, the OHADA accounting system (SYSCOHADA) recommends a balance sheet before profit sharing and opt for a functional classification of items (AUDCIF & SYSCOHADA, 2017: 992). In a functional balance sheet according to the SYSCOHADA models, all items (assets and liabilities) are classified according to their functions which are identified as three: Investment function (Fixed assets: Tangible, Intangible, Financial); Financial resources function (Stables resources: Equity and long term financial debt); Operation function (Current asset: current asset for extra-ordinary activities (HAO), operating current assets, positive cash position and unrealized foreign exchange losses; Current liabilities: current liabilities for extra-ordinary activities (HAO), operating current liabilities, negative cash position, and unrealized foreign exchange gains).

As for items, the SYSCOHADA identifies two types of items in the balance sheet: the top line items and the top-down items. On one hand, top line items are all those considered as stable and long-term elements such as fixed assets considered as long-term investment and also financial resources grouping equity and long-term financial loans. On the other hand, top-down items are all about operating current assets and liabilities as well as the entity’s cash position (AUDCIF & SYSCOHADA, 2017: 993).

Finally, as of the financial analysis, the functional approach of the SYSCOHADA helps in assessing the entity’s financial structure, evaluating the needs of stable and operating financial resources. This also helps to understand the kind of financial resources that the entity has under its control. In the end, we can assess the equilibrium of the entity’s financial structure by comparing items of the balance sheet classified per function and see at which level resources are covering assets. This analysis gives a broad understanding of an entity's financial healthiness and how well or poorly managed it is. The structure also helps stakeholders get a quick view of the financial situation and make rapid decisions in terms of investment or lending (AUDCIF & SYSCOHADA, 2017: 997).

In the second section of the chapter titled as models of balance sheets of the normal system, two models of balance sheets have been given which any entity under the framework of the normal system should follow when presenting its financial statements at the end of a fiscal year. Thus, the two types of balance sheet established by the SYSCOHADA are: the model 1, a landscape format and the model 2, a portrait format.

a. The model 1: The Balance Sheet in a landscape format

The landscape format is one of the two models developed by the standards setters for the OHADA accounting system and should fit on a single page. It displays from left to right all items needed in the balance sheet. First from the left side, we have primarily the reference (REF) column, then an assets column, followed by note references and then by the balance details for each item for the current fiscal year (31/12/N). Balance columns include for each line of item a column of total gross value, a total of amortization and depreciation and finally a net value. This first part ends with the ending net value of the last fiscal year for each item in the balance sheet (31/12/N-1).

The second part of the landscape format at the right side of the page displays: First the references column (REF), then the liabilities column followed by note references and lastly two columns of net amount of each item line for both the current and the previous fiscal year (31/12/N and 31/12/N-1).

In the appendix 2, the landscape format model of balance sheet according to the SYSCOHADA as one of the two options for presenting an entity's balance sheet under the normal system is given.

b. The model 2: The Balance Sheet in portrait format

The portrait format of the balance sheet in the SYSCOHADA displays asset items and liabilities on two different pages. The first one displays only asset items and from left to right has following columns: References (REF), Assets, Notes and lastly the amount for gross, amortization and depreciation as well as net amount for each item lines for the current fiscal year (31/12/N) followed by the net amount for each those item lines for the previous fiscal year (31/12/N-1).

The second page of the balance sheet portrait format model displays liabilities which include from left to right columns of references (REF), liabilities, note references and the net amount for both the current year and the previous fiscal year (31/12/N and 31/12/N-1). Here below we have the portrait format model of balance sheet as given by the SYSCOHADA.

Table 10: Portrait Balance Sheet (Assets Page) Format of the SYSCOHADA Normal system

BALANCE SHEET AS OF 31 DECEMBER N

REF	ASSETS	Note	FISCAL YEAR as of 31/12/N			FISCAL YEAR as of 31/12/N-1
			GROSS	AMOR AND DEPRE	NET	NET
AD	**INTANGIBLE ASSETS**	3				
AF	Patents, licenses, software, and similar rights					
AG	Goodwill, leasehold rights					
AI	**TANGIBLE ASSETS**					
AJ	Sites (1) (1) Including Investment					
AK	Buildings (1) (1) Including Investment					
AL	Fixtures, fittings, and installations					
AM	Equipment, furniture, and biological assets					
AN	Transport material					
AP	ADVANCES AND DOWN PAYMENTS ON FIXED ASSETS	3				
AQ	**FINANCIAL FIXED ASSETS**	4				
AS	Other financial fixed assets					
AZ	**TOTAL FIXED ASSETS**					
BA	CURRENT ASSETS HAO*	5				
BB	INVENTORIES AND WORK-IN-PROGRESS	6				
BG	RECEIVABLES AND RELATED					
BH	Suppliers advances paid	17				
BI	Clients	7				
BJ	Other receivables	8				
BK	**TOTAL CURRENT ASSETS**					

BS	Banks, post checks, cash and related	11				
BT	**TOTAL CASH ASSETS**					
BU	Currency conversion - Asset	12				
BZ	**GENERFAL TOTAL**					

Source: (AUDCIF & SYSCOHADA, 2017: 999)

Table 11: Portrait Balance Sheet (Liabilities Page) Format of the SYSCOHADA Normal System

BALANCE SHEET AS OF 31 DECEMBER N

REF	LIABILITIES	Note	FISCAL YEAR as of 31/12/N	FISCAL YEAR as of 31/12/N-1
			NET	**NET**
CA	Capital	13		
CB	Uncalled capital contributors (-)	13		
CD	Revaluation differences	3e		
CE	Unavailable reserves	14		
CF	Retained earnings (+/-)	14		
CG	Annual net income (profit + or loss -)			
CH	Subvention grants	15		
CJ	Regulated provisions	15		
CP	**TOTAL EQUITY AND SIMILAR RESSOURCES**			
DA	Borrowings and miscellaneous financial debts	16		
DC	Provisions for risks and charges	16		
DD	**TOTAL FINANCIAL LIABILITIES AND SIMILAR RESSOURCES**			
DF	**TOTAL STABLE RESSOURCES**			
DH	Current payables HAO*	5		
DI	Customers, advances received	7		
DJ	Trade suppliers	17		
DK	Tax and social payables	18		
DM	Other payables	19		
DN	Provisions for short term risks	19		
DP	**TOTAL CURRENT LIABILITIES**			
DR	Banks, financial institutions, and cash credits			
DT	**TOTAL TREASURY LIABILITIES**			
DV	Currency conversion - Liabilities	12		
DZ	**GENERFAL TOTAL**			

Source: (AUDCIF & SYSCOHADA, 2017: 1000)

NB: On each page of an entity's balance sheet for both models, the name of that entity, its identification number, the closure date of the fiscal year as well as the duration of the fiscal year given in month should be written as letterhead.

1.3.3.2.The Income Statement of the Normal System

Discussed in the fourth chapter on financial statements titled as: Income Statement of the Normal system. This chapter is divided into two sections. The first section discusses general rules of the income statement presentation and the second one gives the model for presenting the income statement under the normal system.

In the section on the general rules of the income statement presentation, the SYSCOHADA distinguishes two types of activities which both contribute to the net result of an entity. Those activities are first, ordinary activities comprising operating activities and financial activities. Secondly, we have extra non ordinary activities (AUDCIF & SYSCOHADA, 2017: 1002).

a. Ordinary activities: Operating and financial

Ordinary activities comprising operating and financial activities which are operations conducted on a daily basis by the entity and are considered to be the core activity of the business.

- **Operating activities:** They are daily activities making up the core business of the entity such as the purchasing and the selling of goods for a commercial entity.
- **Financial activities:** These are activities related to the entity's financial operations such as: interest payment on financial liabilities, financial investment or profit shares received from a subsidiary.

b. Non-ordinary activities: Operating and financial

Non-ordinary activities refer to all operations according to the SYSCOHADA that are non-recurring flows, having an accidental or exceptional characteristic (AUDCIF & SYSCOHADA, 2017: 1002).

Furthermore, the OHADA general accounting chart (PCGO) requires the income statement to be presented on a list basis to make it easily readable and, also to make the performance analysis easier. This type of presentation highlights all the intermediate management balances included in the PCGO which are: Sales Margin, Added value, Gross Operating Profit, Operating Income, Financial Income, Income of Ordinary Activities, Income of extraordinary activities, Net Income.

The intermediate management balances included in the PCGO are defined in the OHADA (2017: 1003) as follow:

The Sales Margin: For commercial entities, the balance shows how much additional value has been brought on the cost of sold goods and therefore the level of performance for a given period.

The added value: The added value shows the wealth created by an entity from its operating activities during a given period.

Gross Operating Profit: The GOP is the income generated by an entity after the deduction of personal expenses. It is a good indicator for industrial and commercial performance which helps compare entities operating in the same sector. It does not consider financial activities and is called gross operating deficiency when negative.

Operating Income: This balance shows the net income generated by an entity's whole operating activities excluding its financial activities. It measures the economic, industrial, and commercial performance.

Financial Income: Financial incomes highlights the financial choices made by an entity and represents the earning differences between borrowings and financial investments.

Income of Ordinary Activities: Summing up the operating and the financial income, this balance shows the total income generated from an entity's ordinary activities or core activities.

Income of non-ordinary activities: This is the income generated by non-ordinary activities that are different from the core business of an entity which are activities that happen on an occasional or accidental basis.

Net Income: The net income is the result from the addition of both income of ordinary and non-ordinary activities over a fiscal year that last generally twelve (12) months.

In the second section of this chapter titled as a model of income statement, the model of income statement that should be used by entities according to the normal system is given. Contrary to the balance sheet which has two presentation formats, a landscape format and a portrait format, the income statement has only one model of presentation on a list format.

This model includes, first, information about the entity such as name, identification number, closure date of the fiscal year as well as the total number of months within the year. Second, from left to right, information includes: a reference column, an item column, note references and a column for the net amount of the current and previous fiscal year of each item of the income statement.

Here bellows the model of income statement given by the SYSCOHADA for the normal system.

Table 12: SYSCOHADA Income Statement Model

Entity's name: ………. **Fiscal year end: …...**

Identification number: …… **Duration (in month) ……**

INCOME STATEMENT AS OF 31 DECEMBER N

REF	ITEMS			NOTE	FISCAL YEAR as of 31/12/N	FISCAL YEAR as of 31/12/N-1
					NET	NET
TA	Sale of goods	**A**	+	21		
RA	Purchase of goods		-	22		
RB	Changes in inventories of goods for resale		+/-	6		
XA	**SALES MARGIN (Sum TA to RB)**					
TB	Sale of manufactured product	**B**	+	21		
TC	Works and sold services	**C**	+	21		
TD	Accessory products	**D**	+	21		
XB	**REVENUES (A+B+C+D)**					
TE	Inventoried production (or destocking)		+/-	6		
TF	Capitalized production			21		
TG	Operating grant			21		
TH	Other product		+	21		
TI	Transfer of operating charges		+	12		
RC	Purchases of raw materials and related supplies		-	22		
RD	Changes in inventories of raw material and related supplies		+/-	6		
RE	Others purchases		-	22		
RF	Changes in inventories of other supplies		+/-	6		
RG	Transports		-	23		
RH	Outside services		-	24		
RI	Taxes		-	25		
RJ	Other charges		-	26		
XC	**ADDED VALUE (XB + RA + RB) + (sum TE to RJ)**					
RK	Personnel expenses		-	27		
XD	**GROSS OPERATING PROFIT (XC + RK)**					
TJ	Reversals of amortization, provisions, and depreciations		+	28		
RL	Allowances to amortization, provisions, and depreciations		-	3C&28		
XE	**OPERATING INCOME (XD + TJ + RL)**					
TK	Financial and related income		+	29		
TL	Reversals of provisions and financial depreciations		+	28		

TM	Transfer of Financial charges	+	12		
RM	Financial and related expenses	-	29		
RN	Allowances to provisions, and financial depreciations	-	3C&28		
XF	**FINANCIAL INCOME (sum TK to RN)**				
XG	**INCOME OF ORDINARY ACTIVITIES (XE + XF)**				
TN	Income from disposals of fixed assets	+	3D		
TO	Other revenue HAO*	+	30		
RO	Book value of disposals of fixed assets	-	3D		
RP	Other charges HAO*	-	30		
XH	**INCOME OF NON-ORDINARY ACTIVITIES (sum TN to RP)**				
RQ	Employee's participation	-	30		
RS	Income taxes	-			
XI	Net income (XG + XH + RQ + RS)				

Source: (AUDCIF & SYSCOHADA, 2017: 1004)

1.3.3.3. The cash flows Statement of the normal system of the SYSCOHADA

The fifth chapter of the ninth title of the AUDCIF on the annual financial statement disclosure under the normal system, gives the general rules of the cash flows statement disclosure as well as the example model to be used by entities to prepare their statement cash flows under the normal system of the SYSCOHADA.

In the first section of this fifth chapter of the (AUDCIF & SYSCOHADA, 2017: 1006), it is stated that ‘‘*The cash flows statement should display cash inflows and outflows as well as cash equivalents*”. These cash flows have been classified in three categories which are: Cash flows for operating activities, cash flows for investment activities and cash flows for financial activities. Finally, the annual net cash flow is considered to be the sum of these three categories of cash flows plus the net cash flow at the beginning of the fiscal year in the other word the net cash flow at the end of the previous fiscal year.

a. Cash flows from operating activities:

Cash flows from operating activities are all inflow and outflow of cash generated by the core activity of an entity as well as other activities excluding cash flows from investment and financial Cash flows of operating activities are all inflow and outflow of cash generated by the core activity of an entity as well as other activities excluding cash flows from investment and financial categories of cash flow**.**

The calculation process of the operating cash flows is as follow:

First, from the GOP in the income statement, add all remaining cashable inflow activities minus all future outflow expenses.

CAFG = GOP + Future cashable inflows – Future cash outflows

Second, from the calculation above, the CAFG (Global self-financing capacity) found as a result will lead to the current cash flows of operating activities after adjustment of changes. The adjustment requires the determination of changes in inventories, receivables and debts related to the inflows and outflows of operating activities.

Cash flows from operating activities = CAFG – Changes (Inventories; Receivables; Debts and Related)

b. Cash flows from investing activities:

Cash flows of investing activities are all cash inflows and outflows related to the purchases or selling of tangible, intangible and financial assets. However, as mentioned in the (AUDCIF & SYSCOHADA, 2017), any changes in an entity's assets without a change in cash flows should not appear on the cash flows statement. Here below the calculation of cash flows related to investing activities.

Cash flows from investing activities = Cash inflows from disposal of intangible, fixed and financial assets - Cash outflows related to the purchases of intangible, fixed and financial assets

Here, it worth mentioning that these inflows and outflows should be adjusted by first, changes in payables and receivables from respectively both the purchases and disposal of intangible, fixed and financial assets (AUDCIF & SYSCOHADA, 2017: 1011).

c. Cash flows from financing activities:

Cash flows from financing activities comprise inflows and outflows related to changes in the entity's equity and borrowings or long-term debt. But any changes in the position that do not have an impact on the cash inflows and outflows do not appear in the statement of cash flows. Both two examples of operations given in the (AUDCIF & SYSCOHADA, 2017: 1013)**,** such as the conversion of debt into equity and the increasing of equity by an integration of legal reserves are not considered in the statement of cash flows. Here below we have the calculation formula of cash flows for financing activities.

Cash flows from financial activities = Cash flows from equities + Cash flows from foreign capital

In the second section of the chapter on the statement of cash flows, the model for disclosing this financial statement has been given. The model in a portrait mode and requires as for other statements, first, the identity information of the entity such as its name, identification number, the closure date of the fiscal year as well as its duration in month.

From left to right, the cash flows statement includes a column for references, a items column, a note column and finally a net cash amount column for the current fiscal year and another column for the amount of previous year. The cash flows statement has three main subtotals in its structures not to forget the net amount of cash in the beginning of the fiscal year which is from the previous year. The sum of the subtotals adjusted with all variations and other restatement gives the net cash flow of the fiscal period.

Here below, the cash flows statement model as given in the (AUDCIF & SYSCOHADA, 2017: 1015).

Table 13: SYSCOHADA Statement of Cash Flows Model

Entity's name: ……….   Fiscal year end: …...

Identification number: ……   Duration (in month) ……

STATEMENT OF CASH FLOWS

REF	ITEMS		NOTE	FISCAL YEAR as of 31/12/N	FISCAL YEAR as of 31/12/N-1
ZA	**Net cash and cash equivalents as of January 1** (Cash assets N-1 - Cash liabilities N-1)	**A**			
	Cash flow from operating activities				
FA	**Overall financing capacity (CAFG)**				
FB	- Changes in current assets (HAO)*				
FC	- Changes in inventories				
FD	- Changes in receivables				
FE	+ Changes in current liabilities*				
	Variation in working capital for operating activities (FB + FC + FD + FE)				
ZB	**Cash flow from operating activities (sum FA to FE)**	**B**			
	Cash flows from investing activities				
FF	- Outflows related to purchases of intangible assets				
FG	- Outflows related to purchases of tangible assets				
FH	- Outflows related to purchases of financial assets				
FI	+ Inflows related to disposal of intangible and tangible assets				
FJ	+ Inflows related to disposal of financial assets				

ZC	**Cash flows from investing activities (sum FF to FJ)**	**C**			
	Cash flow from equity financing				
FK	+ Capital increases through new contributions				
FL	+ Investment subsidies/grants				
FN	- Dividend distributions				
ZD	**Cash flows from equity (sum FK to FN)**	**D**			
	Treasury from financing by foreign capital				
FO	+ Borrowings				
FQ	- Repayment of borrowings and other financial debts				
ZE	**Cash flow from financing by foreign capital (Sum FO to FQ)**	**E**			
ZF	**Cash flow from financing activities (D+E)**	**F**			
ZG	**Changes in the cash position for the period (B+C+F)**	**G**			
ZH	**Cash position as of 31 December (G+A)** Control = Cash assets N-1 - Cash liabilities N-1	**H**			

*Excluding changes in receivables and payables related to investment and financing activities.

1.3.3.4.Notes of the Normal System of the SYSCOHADA

In the sixth chapter of the ninth title of the AUDCIF on the attached notes of the normal system, general rules of the disclosure of annexed notes as well as the model that should be followed when presenting them have been discussed.

On the general rules of the disclosure of the attached notes according to the 33th article of the uniform act of the OHADA, attached notes include complementary information disclosed in other financial statements (the balance sheet, the income statement and the statement of cash flows). They give narrative descriptions or more details on disclosed information and all other relevant information for decision making which are not included in the other financial statements.

However, it has been clearly stated that information already disclosed in the financial statements: the balance sheet, the income statement and the statement of cash flows should not be included in the attached notes therefore they are seen as additional information. Also, a cross-reference should be included for each item in the financial statements to relate with information contained in each note.

Furthermore, attached notes must include a declaration of compliance with the PCGO and financial statements should be declared conform to the SYSCOHADA only if they comply with all the provisions of the OHADA accounting system and the Uniform Act (AUDCIF & SYSCOHADA, 2017: 1018)**.**

Regarding the model related to the disclosure of attached notes of the normal system of the SYSCOHADA, thirty-six models of notes have been given. However, only documented models should be added to the financial statements and the content of each can be improved by the entity itself (AUDCIF & SYSCOHADA, 2017: 1018; OHADA, n.d.-a: 340).

Here below, there is the list of the thirty-six attached notes provided by the SYSCOHADA. There is no requirement for any entity to present them all. Only notes that have been documented should be considered. Each note has its own model that can differ from one to another. However, more broadly, each note has title, information related to the identity of the entity, a table with items and related amounts for each. Finally, at the bottom necessary comment can be added to help the understanding of the given note with all needed clarifications.

Table 14: List of Notes for the Normal System

NOTES	TITLES	A	N/A
NOTE 1	DEBTS SECURED BY COLLATERAL		
NOTE 2	MANDATORY INFORMATION		
NOTE 3A	GROSS FIXED ASSET		
NOTE 3B	LEASE PURCHASE PROPERTIES		
NOTE 3C	IMMOBILIZATIONS: AMORTIZATIONS		
NOTE 3D	FIXED ASSETS: CAPITAL GAIN AND LOSS ON DISPOSAL		
NOTE 3E	INFORMATION ON REVALUATIONS PERFORMED BY THE ENTITY		
NOTE 3F	SPREADSHEET OF CAPITALIZED EXPENSES		
NOTE 4	FINANCIAL IMMOBILIZATION		
NOTE 5	CURRENT ASSETS AND CURRENT LIABILITIES HAO*		
NOTE 6	INVENTORIES AND GOODS IN PROGRESS		
NOTE 7	CLIENTS		
NOTE 8	OTHER RECEIVABLES		
NOTE 9	INVESTMENT SECURITIES		
NOTE 10	VALUE TO BE COLLECTED		
NOTE 11	LIQUID ASSETS		
NOTE 12	EXCHANGE DIFFERENTIAL AND TRANSFERT OF EXPENSES		
NOTE 13	CAPITAL: PAR VALUE OF SHARES OR UNITS		
NOTE 14	PREMIUMS AND RESERVES		
NOTE 15A	SUBSIDIES AND REGULATED PROVISIONS		
NOTE 15B	OTHER EQUITY CAPITAL		

NOTE 16A	financial debts and similar resources		
NOTE 16B	pension obligation and similar benefits (actuarial method)		
NOTE 16 bis	pension obligation and similar benefits (actuarial method)		
NOTE 16 C	CONTINGENT ASSETS AND LIABILITIES		
NOTE 17	Operating suppliers		
NOTE 18	Taxes and social security liabilities		
NOTE 19	Other liabilies and provision for short term risks		
NOTE 20	Banks, discount credit and cash advance		
NOTE 21	Turnver and other income		
NOTE 22	Purchases		
NOTE 23	TRANPORTS		
NOTE 24	OUTSIDE SERVICES		
NOTE 25	Taxes		
NOTE 26	OTHER EXPENSES		
NOTE 27A	PERSONNEL EXPENSES		
NOTE 27B	WORKFORCE, payroll and external staff		
NOTE 28	Provisions and impairments recorded in the balance sheet		
NOTE 29	Financial revenue and expenses		
NOTE 30	Other income and expenses HAO*		
NOTE 31	DISTRIBUTION OF EARNINGS AND OTHER CHARACTERISTICS OF THE LAST FIVE YEARS		
NOTE 32	ANNUAL PRODUCTION		
NOTE 33	PURCHASES FOR PRODUCTION		
NOTE 34	SUMMARY OF THE MAIN FINANCIAL INDICATORS		
NOTE 35	LIST OF REQUIRED SOCIAL, environmental and societal information		
NOTE 36	CODE TABLE		

*HAO: Non-ordinary activities

As can be seen, the uniform act of OHADA with the OHADA accounting system embedded to it, gives clear instructions on the preparation of each financial statement. Furthermore, financial statements required to be prepared under the SYSCOHADA for each level of presentation are the balance sheet, the income statement, the statement of cash flows and attached notes for the normal system. And with regard to the annual turnover entities under the scope of the minimal treasury system, are required to prepare a balance sheet, an income statement and attached notes with the statements of cash flows being excluded in the set. For each financial statement prepared according to the SYSCOHADA rules, specific models have been given which should be used as a reference for the disclosure of their annual financial statements.

1.3.4. The SYSCOHADA Consolidated and Combined Financial Statements.

Consolidated and combined financial statements have been discussed in detail in the second part of the SYSCOHADA following the rules related to them discussed in the first part of the AUDICIF. According to the SYSCOHADA, consolidated financial statements for an entity are required when it has fulfilled all requirements related to the annual disclosure of those financial statements as stated in the 74th article of the AUDICIF. Those requirements include having the head office within one OHADA member countries and having a full or joint control over other entities (AUDCIF & SYSCOHADA, 2017: 38). Furthermore, as stated in the 75th article of the AUDICIF, listed companies and publicly held ones are required to comply with all provisions of the IAS/IFRS. However, while the disclosure of combined accounts is not considered to be an obligation, with the exception stated in the 103rd article of the AUDCIF those financial statements can be required by public authorities (AUDCIF & SYSCOHADA, 2017: 47). The SYSCOHADA provisions give a legal and accounting framework for preparing and disclosing both consolidated and combined financial statements.

Consolidated financial statements prepared under the SYSCOHADA are considered as inseparable and prepared according to given models. As listed in the 79th article of the AUDCIF consolidated financial statements in the SYSCOHADA comprise: A consolidated balance sheet, a consolidated income statement, a consolidated statement of cash flows, a statement of change in equities and finally attached notes to the consolidated financial statements. Adding to these financial statements, a management report, and an opinion of auditors on financial statements are among required documents for an entity subject to the disclosure of consolidated financial statements (AUDCIF & SYSCOHADA, 2017: 40)**.**

With regards to combined financial statements, required documents as stated in the 108-1st article of the AUDCIF are: a combined balance sheet, a combined income statement, a combined statement of cash flows and attached notes. To these statements, a management report and an opinion of auditors should be added (AUDCIF & SYSCOHADA, 2017: 49).

1.3.4.1. The SYSCOHADA Consolidated Financial Statements.

Consolidated financial statements as defined in the IFRS 10 are**:** ‘‘*The 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’’* (IASB, 2011: A548). This definition is well in line with the preparation and disclosure of consolidated financial statements under the SYSCOHADA. Furthermore, listed companies, or publicly traded ones are even subject to a full compliance with the IAS/IFRS therefore the IFRS10 for the disclosure of their consolidated financial statements. Consolidated financial statements give users details information on the financial performance and the overall view on the economic activity of a group (AUDCIF & SYSCOHADA, 2017: 1032).

a. Entities required to publish consolidated financial statements under the SYSCOHADA

Requirements related to the disclosure of consolidated financial statements under the SYSCOHADA are stated in the 74th and the 76th articles of the AUDICIF**.** They include first, having the headquarter or the core business activity in one of the OHADA member states. Second, a sole or joint control over one or more other entities. Furthermore, although the significant influence does not require the disclosure of consolidated financial statements under the SYSCOHADA, entities that fulfill the two previous requirements will be required to include in their consolidated financial statements entities over which they have a significant influence.

However, in line with the 77th article of the AUDICIF, some entities are exempt from the disclosure of consolidated financial statements when the parent entity is itself under control of another parent entity located in the same region within the OHADA area. Here, it worth mentioning that the OHADA area is divided into two economic zone and three individual countries, the UEMOA in West-Africa grouping 8 countries and the CMAC in Central-Africa with 6 countries, Guinea, Comoros and Democratic Republic of Congo which are not member of the two main economic zone and regarded therefore as an individual zone on their own (Camara, 2017: 60). Also, a group of entities that do not reach a certain minimum level of a net annual revenue of 500 000 000 FCFA (~760 000

EURO) are excluded from the obligation of preparing consolidated financial statements as stated in the 95th article of the SYSCOHADA (AUDCIF & SYSCOHADA, 2017: 44).

b. Control levels under the SYSCOHADA

The SYSCOHADA has established three levels of control that a parent entity can have over its subsidiaries. The control levels are discussed in the 78th article of the AUDCIF and are as follow: the full control, the joint control, and the significant influence. Each of these control levels is characterized by a different level of obligation and a specific methodology for the integration of financial statements of subsidiary entities into the parent's ones (AUDCIF & SYSCOHADA, 2017: 39).

➢ **The full control:** The full control over an entity is defined by the SYSCOHADA as the ability of a given entity (the parent) to decide on the financial and operational policy of another entity (the subsidiary). The sole control comes as the result of first, having the right on the majority votes of another entity. Second, we also have the appointment of the management team of another entity and finally, through a contract or the legal statute of the entity.

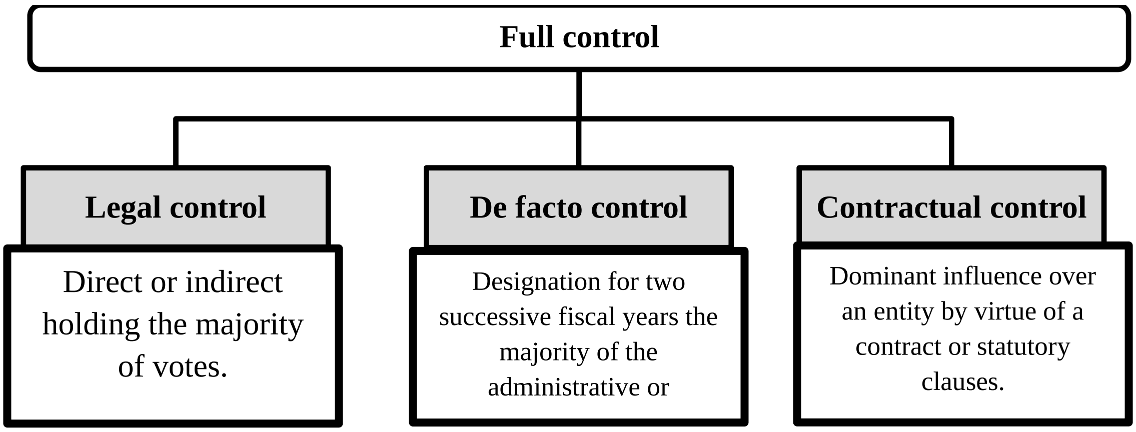

Figure 2: Characteristics of the full control in the SYSCOHADA

Source: (AUDCIF & SYSCOHADA, 2017: 1042)

➢ **The joint control:** The joint control according to the SYSCOHADA definition is a shared control by a limited number of partners over an entity. In this case, financial and operational policies will result from an agreement of those partners (AUDCIF &

SYSCOHADA, 2017: 1143). This type of control is characterized by a limited number of partners but also the existence of an agreement between them.

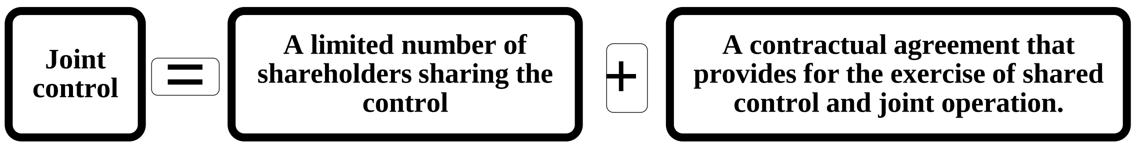

Figure 3: The joint venture in the SYSCOHADA

Source: (AUDCIF & SYSCOHADA, 2017)

➢ **The significant influence:** The significant type of control is the ability to be part of the financial and operational policy making of another entity without having a control power on it. The significant influence can be the result of the membership of the management body, participation in the strategic decision making, a significant level of inter-entity operations, management body personnel exchanges and finally a technical relationship dependency.

c. The scope of consolidation

The scope of consolidation as defined in the SYSCOHADA, comprises all entities that are considered for the preparation and disclosure of consolidated financial statements. The scope of consolidation comprises a parent or consolidating entity and consolidated entities.

➢ **The parent entity:** The parent or consolidating entity is the entity that has a control power either sole control, joint control or a significant influence over another entity or entities.

➢ **The subsidiary**: The subsidiary or consolidated entity is an entity that is under a form of control of a parent entity.

For some reasons, an entity can be excluded from the consolidation scope. The loss of control or significance influence over an entity by its parent one, the existence of severe and durable restriction on the control power, the little or insignificant importance within the scope is among reasons that can lead to an exclusion of an entity from the scope of consolidation. However, the insufficient or lack of information of an entity within the scope of consolidation do not exempt from the obligation of preparation of consolidated financial statements although that should be mentioned into the annexed notes (AUDCIF & SYSCOHADA, 2017: 1144).

d. Consolidation methodologies

As discussed in the **80th article of the AUDICIF,** three consolidation methodologies are used for the preparation of consolidated financial statements. Those methodologies can be listed as follow: the global integration or full integration method, the proportional method, and the equity method (AUDCIF & SYSCOHADA, 2017: 1147).

- **The global integration**

The global integration or full integration is the consolidation method used when a parent entity has a sole control power over it subsidiary. In such cases, the subsidiary's accounts are fully integrated into those of the parent entity. Also, equities and income are both distributed between the parent and minority interest. Operations and accounts between fully integrated entities and other integrated entities should be eliminated.

- **The proportional method**

As for the proportional method, it is used to integrate all entities under a joint control. This method requires the parent entity to integrate its subsidiary within the limit of its interest. Also, operations and accounts between fully integrated entities and other integrated entities should be eliminated.

- **The equity method**

A parent entity that has only a significant influence over another entity should use the equity method for the preparation of its consolidated financial statements. This methodology requires the replacement of the amount of securities held by the share within the shareholders' equity. Operations and accounts between entities integrated according to the equity method and other integrated entities should be eliminated.

e. Operations and consolidation techniques

The preparation of consolidated financial statements requires many phases of process to be completed that will ultimately result to the disclosure of financial statements of a group. These phases as summarized in the below figure ranging from the preparation of individual accounts and restatement to the removal of internal operations and preparation of consolidated financial statements.

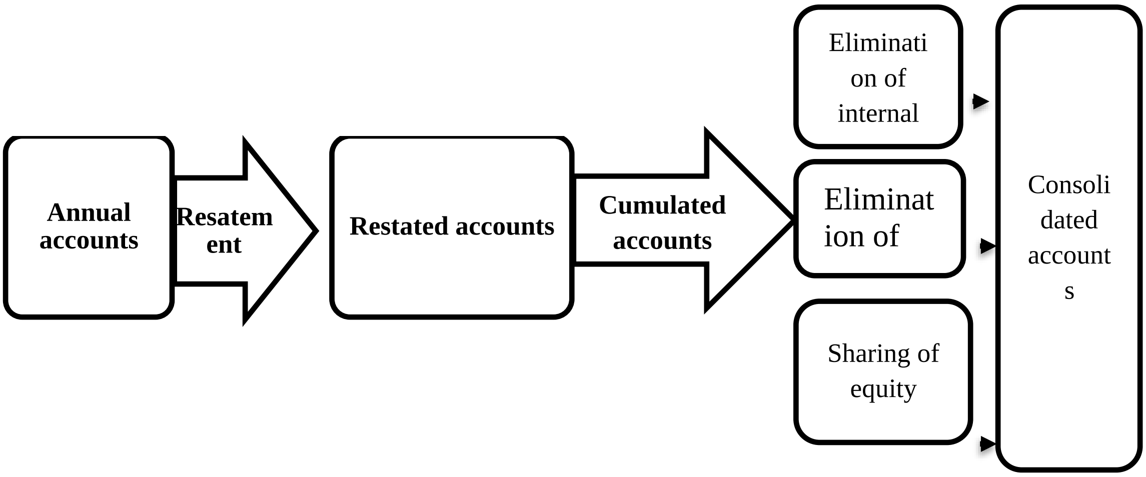

Figure 4: The SYSCOHADA consolidation phases and operations.

Source: (AUDCIF & SYSCOHADA, 2017: 1168)

- **Restatement of individual accounts**

Restatement processes for the preparation of consolidated financial statements within the SYSCOHADA scope include mainly, the homogenization of financial statements, elimination of the tax-based accounting records and intra-group operations, consideration of the changes in the accounting methodology and finally the tax restatement (AUDCIF & SYSCOHADA, 2017: 1150).

- **Conversion of overseas entities' financial statements**

Other operations leading to the preparation of consolidated financial statements is the conversion of individual financial statements of entities operating overseas into the local currency of the parent entity. For entities that run their business in foreign currency, the conversion from the local currency of the parent entity to the foreign currency used by the subsidiary should use the historical rate. However, for the contrary case, the closing rate should be used. Furthermore, in the case of hyper-inflationary currencies, financial statements of N and N-1 should be adjusted by the general price index and also, both financial statements N and N-1 are converted according to the closing rate N (AUDCIF & SYSCOHADA, 2017: 1159).

- **Consolidation techniques**

Depending on the size of the group, two consolidation techniques can be used. First, the step consolidation and the direct consolidation. On one hand, the step consolidation, used by large and complex groups or organizations, requires the consolidation to be made from the bottom up which should allow subsidiaries at the far edge of the organization to be integrated in gradual basis. On the other hand, the direct consolidation technique is more suitable for a small organization which allows a direct integration of a subsidiary by its parent entity (AUDCIF & SYSCOHADA, 2017: 1179).

f. Consolidated financial statements

Five consolidated financial statements listed in the 79th article of the AUDCIF is required under the SYSCOHADA accounting. The consolidated balance sheet, the consolidated income statement, the consolidated statement of cash flows, the consolidated statement of change in equities and the attached notes. These statements are prepared according to models given in the SYSCOHADA and considered as an indissoluble whole. Adding to these statements, a management report and an opinion of auditors are also required documents that should be prepared at the end of a fiscal year.

- **The SYSCOHADA consolidated balance sheets**

The consolidated balance sheet is prepared before the distribution of the result. Also, this statement should follow the given model in the SYSCOHADA for its disclosure. The given model on a portrait format is divided into two main parts: one for assets and the other for liabilities. The balance sheet should bear the name and the identification number of the parent entity and the closure date of the fiscal year as well as the duration in month (AUDCIF & SYSCOHADA, 2017: 1198).

- **The SYSCOHADA consolidated income statement**

Like the consolidated balance sheet, the consolidated income statement under the SYSCOHADA accounting should be prepared according to the given model of income statement. The consolidated income statements should also display independently the shares of the parent entity and those of the minority interest within the net result of the whole integrated group in case of a full integration. In the case where the equity method has been used, the shares of the net result of consolidated entities should be shown in the income statement. In addition, in order to evaluate the group performance over the years and comparatively to other entities, the income per share is given at the foot of the consolidated financial statement (AUDCIF & SYSCOHADA, 2017: 1201)**.**

- **The SYSCOHADA consolidated statement of cash flows**

As part of the consolidated financial statements set, a consolidated statement of cash flows is one of the required documents under the SYSCOHADA. And, as the two previous statements, it should be in line with the given model of consolidated statement of cash flows. This statement comprises three main categories of cash flows: cash flows of operational activities, cash flows of investment activities and cash flows of financial activities (AUDCIF & SYSCOHADA, 2017: 1204)

- **The SYSCOHADA statement of change in equities**

This statement is prepared only by entities subject to consolidation under the SYSCOHADA (AUDCIF & SYSCOHADA, 2017: 1207). It is aimed to explain all changes that have occurred within an entity's equity for a specific fiscal year. It considers all operations that can affect an entity's financial position.

- **The attached notes**

Annexed notes are considered as a part of the financial statements that include complementary information on other financial statements. No specific model has been given for the attached notes as for other financial statements. However, a predetermined order which should be followed for the presentation of the attached notes are given in the SYSCOHADA. The given order as follow can be modified according to circumstances (AUDCIF & SYSCOHADA, 2017: 1209).

❖ A statement of conformity with provisions of SYSCOHADA related to the consolidated financial statements.

❖ complementary information about the scope of consolidation and the relationship between the parent entity and its subsidiaries.

❖ A summary of principles and methodologies that have been applied.

❖ A breakdown of the consolidated revenue and the consolidated result by operational sector.

❖ Complementary information on the other financial statements.

❖ Other contractual commitment and non-financial information.

➢ **The management reports**

The management although not being financial statements is a required document for entities subject to the disclosure of consolidated financial statements. The report is prepared under the authority of the management team to be presented in the general meeting (AUDCIF & SYSCOHADA, 2017: 1214). The document should include the following information.

❖ The overall picture of the group (the parent entity and subsidiaries).

❖ A forecast of future evolution.

❖ All major events that have occurred between the account closure date and the preparation of consolidated financial statements.

❖ The group's activities in terms of research and development.

❖ Other essential information such as disposal or acquisition of equity securities.

➢ **The opinion of auditors**

The opinion of auditors is a third-party document prepared by auditors which should give an appreciation of all consolidated financial statements with the requirements and provisions of the SYSCOHADA (AUDCIF & SYSCOHADA, 2017: 1214).

1.3.4.2. The SYSCOHADA Combined Financial Statements

The SYSCOHADA defines combined financial statements as statements that are prepared by two or more entities as a result of some economic ties that are different from a parent-subsidiary entity relationship. Combined financial statements are not mandatory according to the SYSCOHADA. However, other circumstances and a competent authority of one member states may require the establishment of combined financial statements (AUDCIF & SYSCOHADA, 2017: 1224).

Combined financial statements are composed of at least a combined balance sheet, a combined income statement, and attached notes. A combined statement of cash flows and a combined statement of change in equities can be added. Also, a management report and an opinion of auditors are among other documents that should be established in the scope of combined financial statements.

1.3.5. The OHADA General Chart of Accounts

The use of charts of accounts is a very common feature among countries that have adopted the continental approach of accounting with strict regulation such as France and Germany (Zimakova et al., 2016: 143)**.** The idea of accounting charts according to Richard (2014: 87) can be linked back to the origin of the double entry concept but it is only toward the end of the nineteenth century that the idea of multiple uses charts of accounts for diverse businesses has emerged thanks to the rise of the financial market and the need of comparing the performance of companies between them, also, the widening of industrial group creating the need of a multi-purposes charts of account and finally, the increasing trend toward accounting standardization.

The SYSCOHDA being historically inspired by the continental philosophy of accounting, especially by the France's accounting regulation (Degos et al., 2019: 86; Degos and Souleymanou, 2018: 12; Feudjo, 2010: 151; Tchokote, 2019: 466), has made since its early days the use of chart of accounts a requirement.

The OHADA accounting chart of accounts is a well-structured and detailed document which has been included in the AUDICIF-SYSCOHADA 2017. In the 7th title of this document, the scope, the structure, and the content as well as the functioning of the OHADA accounting charts have been discussed. However, let mention that the OHADA accounting chart does not apply for consolidated accounts therefore entities that are subject to the preparation of consolidated financial statements have the freedom to define their own accounting charts by taking the OHADA accounting chart as a reference base.

In this part, there will be an overlook of the OHADA accounting chart in order to understand its structure and functioning.

A. Scope of the OHADA accounting chart

The OHADA accounting chart comprises nine (9) classes which include five (5) classes of accounts ranging from 1 to 5. These five accounts are intended for the balance sheet and are known as the balance sheet accounts. Three (3) other classes ranging from 6 to 8 are intended for the management accounts in which expense and income operations are recognized and known as the income statement accounts. Finally, the 9th class of accounts intended both for off-balance sheet commitments and the cost accounting accounts. The use of the 9th class of the OHADA chart of accounts is optional and it is up to the entity to decide whether it is going to use it or not.

B. Structure and organization of the OHADA accounting chart

The OHADA accounting chart is built around decimal numbers with accounts divided into classes, groups, and subclasses. Each account is identified by a number and title. The accounting chart codification system ensures the existence of constant numbers and parallelism between accounts to help the understanding and the recall of accounts.

- **Constant**

Constant in the OHADA accounting charts refers to numbers or digits that have a particular meaning according to their position order within a range or class of accounts and remain invariable.

The first and last number of an account may have a specific meaning. While the first number shows the class of the related account, the last number depending on its position as second, third or fourth may also indicate a specific meaning of an account (AUDCIF & SYSCOHADA, 2017: 213).

Accounts with 1 as first digit:

> **Ex: 101- Share capital**: Starting with **1** which indicate the class of long-term resources.
>
> **211- Development cost*:*** Starting with **2** which indicate the class of tangible assets

Accounts with 9 as the second digit: In the balance sheet accounts **1** to **5,** and the management accounts **6** to **8,** the number **9** in the second position is related to provisions and depreciations.

> **Ex: 19-** Provisions for risks and charges
>
> **39-** Depreciation of inventories

Accounts with 9 in the third plus position: The **9** digits at the third position or plus in accounts except for those in the **2** second class are related to the inverse balance operations.

> **Ex: 419-** Creditor customers - in other words amount due to customers

6059- Discounts, rebates and other payment deductions obtained on purchases.

The digit **0** does not have any specific meaning. Numbers from **1** to **8** in three range digits balance sheet account numbers help in detailing subordinate operations. However, in the case of the management account **6, 7, 8,** the **8** digits in the third position or more indicate ***other*** operations different from those recorded at the same category.

Ex: 758- Other various income

658- Other social charges

- **Parallelism**

The parallelism in the chart of accounts describes accounts that have some similarities in the way they are displayed or numbered with other accounts within the same class or between different range of classes. The two main parallelisms in the OHADA chart of accounts are between the **6**,**7** and the **8** classes which refer respectively to expenses or charges, **class 6,** and incomes, **class 7,** for ordinary activities and both expenses and incomes, **class 8,** for non-ordinary activities. Here below the table of the referred parallelism (AUDCIF & SYSCOHADA, 2017: 214).

C. List of accounts and their functioning

The OHADA accounting chart includes nine (**9**) different classes ranging from **1** to **9.** Each class has its group and subdivision of classes. Furthermore, each class has its own functioning specificities.

- **Class 1**: **Accounts of long-term resources**

This class of account is intended to record operations related to long term and permanent resources that are provided to the entity by partners and third parties. The accounts of this class range from **10**: Capital to **19**: Provision for risks and charges

- **Class 2**: **Accounts of fixed asset**

The second class of the accounting chart recognize operations related to an entity's assets and securities that are meant to stay in the entity's portfolio for a long period. They are tangible, intangible, and financial assets. The accounts of this class range from **21**: Intangible assets to **29**: Depreciation of assets.

- **Class 3**: **Accounts of inventories**

Inventory accounts recognize operations related to inventories such as: goods and commodities, raw materials, end products, goods, or services in process… The accounts of this class range from **31:** Merchandise **to 39**: Depreciation of stock and product in progress

- **Class 4**: **Accounts of third parties**

The fourth class of accounts recognize operations in relation with third parties. They are used to record debts, receivables and, also include regulation accounts. The fourth-class accounts range from **40:** Suppliers and related accounts to **49**: Depreciations and provisions for short term risks

- **Class 5**: **Accounts of treasury**

The fifth class is used to recognize, cash values, checks, electronic currencies or cash, negotiable instruments, investment securities and not to forget operations with credit or lending institutions such as banks. The fifth-class accounts range from **50:** Investment security to **59**: Depreciations and provisions for short term risks

- **Class 6**: **Accounts of expenses for ordinary activities**

The sixth class of accounts is used to recognize operations related to a final use or consumptions of disbursed or to be disbursed values. Accounts in the **6 class** also include some other important elements for the annual result determination which are: amortization, provisions, and depreciations. The **class 6** differs from the **class 8** as it is only related to the ordinary activities which is not the case for the **8th Class** of accounts which is uses for non-ordinary activities. The **6th** Class of accounts ranges from: **60:** Purchases and changes in inventories to **69:** Allowances to provisions and depreciations.

- **Class 7**: **Accounts of incomes for ordinary activities**

The **class 7 recognize** all incomes related to the ordinary activities of an entity such as the selling of goods and services, as well as the immobilized production and other elements. They also include the transfer of expenses and reversal of provisions and depreciations. This class range from **70:** sale**s** to **79:** Reversal of provisions, depreciation and other.

- **Class 8**: **Accounts of other expenses and other incomes**

All types of operations that are not related to the expenses and incomes of ordinary activities are considered as non-recurring or non-ordinary activities and therefore within the scope of the class **8.** In this class of accounts, expenses are recognized into odd numbers such as: **81, 83, 85 etc.;** and incomes are recorded into even numbers such as: **82, 84, 86 etc.** The class range from **81** to **89**.

- **Class 9**: **Accounts of off-balance sheet commitments and accounts of cost management.**

This class of accounts is optional, and it is therefore up to any entity to decide whether to use them or not. The class is divided into two main parts, the off-balance sheet accounts, and the cost management accounts.

A**ccounts of off-balance sheet commitments:** These accounts record off-balance sheet commitments which can help the establishments of annexed notes. The off-balance sheet accounts are themselves divided into two main parts which are: granted or given commitment and obtained commitment which all should be subject to a written agreement.

Accounts of cost management: The use of these accounts is completely left to the wish of the entity which should look for the best way to adapt those accounts to its needs. These accounts range from **92:** reflexive accounts to **99:** Internal liaison accounts.

1.3.6. A Comparison Between the SYSCOHADA and the IAS/IFRS

The IASs/IFRSs have been for decades the main trend for harmonizing international accounting across the world. In doing so, many countries have been shifting their local accounting regulations to match those promoted and published by the IASB. The OHADA member countries with their common accounting set, the SYSCOHADA, have gone over the years towards a closer regulation to the IASs/IFRSs. This development led to the full adoption of the IASs/IFRSs for all listed companies within the OHADA space.

In the table below, we will try to establish the connection between the IASs/IFRSs and the SYSCOHADA chapters. Moreover, the main similarities and differences between the accounting sets will be discussed as well.

Table 15: The SYSOCHADA Chapters Inspired by the IASs/IFRSs

SYSCOHADA	IAS/IFRS and IFRIC	Observations
TITLE VI: Conceptual Framework	Conceptual Framework	The two conceptual frameworks are somehow in harmony with each other. However, they are made up of a different number of chapters. Eight for the IFRS/IAS and five for the SYSCOHADA.
Chapter 1: Research and Development Expenses	**IAS 38:** Intangible Assets	Provisions in the Chapter 1 of the SYSCOHADA have been inspired by the IAS 38 (2004) standard with its successive amendments. It describes the accounting processing for research and development project.
Chapter 2: Patents, Licenses, Trademarks, Software, Websites	**IAS 38:** Intangible Assets **IFRS 15:** Revenue from Contracts with Customers	This SYSCOHADA chapter is inspired by the IAS 38 (2004) with all successive amendments and the IFRS 15 (2014). It describes the accounting processing Intangible assets different from the development expenses.
Chapter 3: Prospecting and Mineral Resource Development Costs	**IFRS 6:** Exploration for and Evaluation of Mineral Assets	Provisions for the Chapter 3 of the SYSCOHADA have been inspired by the IFRS 6 (2004) with its successive amendments and interpretations IFRIC 20 (2011): Stripping Costs in the Production Phase of a Surface Mine. It describes accounting processing for mining site acquisition and prospections.
Chapter 4: Component Approach	**IAS 16:** Property, Plant and Equipment	Provisions for the Chapter 4 of the SYSCOHADA have been inspired by the IAS 16 (2003) with its successive amendments. It describes accounting processing for tangible assets components with different durations.
Chapter 5: Costs of Major Inspections or Revisions, Safety and Compliance Expenses	**IAS 16:** Property, Plant and Equipment	Provisions for the Chapter 5 of the SYSCOHADA have been inspired by the IAS 16 (2003) with its successive amendments. It describes accounting processing for tangible assets requiring major and regular inspections (boat and aircraft)
Chapter 7: Borrowing Costs	**IAS 23:** Borrowing Costs	Provisions for the Chapter 7 of the SYSCOHADA have been inspired by the IAS 23 (2007). It describes accounting processing for borrowing costs subject to be included into the cost of an asset.
Chapter 8: Lease Agreement	**IFRS 16:** Leases	Provisions for the Chapter 8 of the SYSCOHADA are inspired by the IFRS 16 (2016). It describes the accounting processing, evaluation, and the disclosure of lease agreements.
Chapter 10: Investment Property	**IAS 40:** Investment Property	Provisions for the Chapter 10 of the SYSCOHADA are inspired by the IAS 40 (2003) and its successive amendments. It describes the accounting processing for investments properties (buildings, sites).
Chapter 12: Impairment of Fixed Assets	**IAS 36:** Impairment of Assets	Provisions for the Chapter 12 of the SYSCOHADA are inspired by the IAS 36 (2004) and its successive amendments. It aims to provide information about the actual value and depreciation of an asset.

Chapter 14: Inventories and work in progress	**IAS 2:** Inventories	Provisions for the Chapter 14 of the SYSCOHADA are inspired by the IAS 2 (2003) and its successive amendments. It describes the accounting processing for inventories and work in progress.
Chapter 18: Provisions, Contingent Liabilities and Contingent Assets	**IAS 37:** Provisions, Contingent Liabilities and Contingent Assets	Provisions for the Chapter 18 of the SYSCOHADA are inspired by the IAS 37 (1998) and its successive amendments. It aims to provide the accounting processing of provisions, contingent liabilities, and contingent assets.
Chapter 21: Pension Obligations and Other Similar Benefits	**IAS 19:** Employee Benefits	Provisions for the Chapter 21 of the SYSCOHADA are inspired by the IAS 19 (2011) and its successive amendments. It aims to provide the accounting processing of employee benefits and related information.
Chapter 23: Multi-Year Agreements	**IAS 11:** Construction Contracts* **IFRS 15:** Revenue from Contracts with Customers	Provisions for the Chapter 23 of the SYSCOHADA are inspired by the accounting processing in the IAS 11 (1993) and the IFRS 15 (2014).
Chapter 25: Public Service Concession Agreement	**IFRIC 12**: Service Concession Arrangements	Provisions for the Chapter 25 of the SYSCOHADA are inspired by the interpretation IFRIC 12 (2009): Service Concession Arrangements
Chapter 28: Balance Sheet Re-Evaluation	**IAS 16**: Property, Plant and Equipment **IAS 29:** Financial Reporting in Hyperinflationary Economies	Provisions for the Chapter 28 of the SYSCOHADA are inspired by the accounting processing in the IAS 16 (2003) and the IAS 29 (1994) with their successive amendments.
Chapter 31: Events After the Closure of the Fiscal Year	**IAS 10:** Events after the Reporting Period	Provisions for the Chapter 31 of the SYSCOHADA are inspired by the accounting processing in the IAS 10 (2003) with its successive amendments. It covers "when'' an entity should adjust its financial statements for post reporting operations and which information should be disclosed.
Chapter 32: Transactions Carried on Behalf of Third Parties	**IFRS 15**: Revenue from Contracts with Customers	Provisions for the Chapter 32 of the SYSCOHADA are inspired by the accounting processing in the IFRS 15 (2014). It aims to describe the accounting processing for contracts that bring together two or more parties.

* Although the IAS 11 was withdrawn in 2018, it is included in the table because it was taken as a reference in the preparation of the SYSCOHADA chapter 23.

The latest revision of the SYSCOHADA that has occurred in 2017 have been largely inspired by the IASs/IFRSs. There has been a full adoption of the international standards for listed entities and those that are publicly traded. Furthermore, numerous chapters of the new OHADA set are in line with the IAS/IFRS. However, many other chapters of the SYSCOHADA remains on a legal basis with the continental approach of accounting.

The main contrast between the IAS/IFRS and the SYSCOHADA can be seen in their structure. The IAS/IFRS are set on standards basis around a conceptual framework intended mainly for big corporations whereas the SYSCOHADA is a legal based set displayed on a chapter basis and intended to all entities regardless of their size with different levels of presentation.

Also, the SYSCOHADA unlike the IAS/IFRS, is divided into two main parts which are: the accounting for individual entities and the accounting for consolidated and combined entities. In addition to that, the SYSYCOHADA also gives the financial statement models for the annual disclosure for each category of entity.

We should also mention that as it is required for the explanatory notes that should be attached to the financial statements in the IAS/IFRS, the SYSCOHADA also requires attached notes that give additional information on financial statements.

In term of financial statements, the SYSCOHADA requires a statement of changes in equities only for consolidated financial statements. It also worth mentioning that the financial statements both in the SYSCOHADA and the IAS/IFRS despite referring to a same statement use different denominations. For the SYSCOHADA, we have the balance sheet referring to the statement of financial position, the income statement referring to the statement of profit and loss and other comprehensive income.

We should also mention that the SYSCOHADA distinguishes two types of income and expenses in the income statement unlike the IAS/IFRS. We have incomes or expenses from ordinary activities referring to the core business of an entity and the non-ordinary activities (hors activité ordinaire H.A.O.) referring to those which are not considered as recurring and happens quite rarely or occasional.

On the valuation methods, both the SYSCOHADA and the IFRS use the same methodologies which are: the historical cost, the current cost, and the current value (Degos and Souleymanou, 2018: 12). However, despite considering the historical cost as the main valuation method, the SYSCOHADA has embraced the use of the fair value in its latest revision which is not the case in the previous version (Degos et al., 2019: 87; Tchokote, 2019: 472).

The fair value defined in the IASB (2010: A60) published conceptual framework as: ‘‘*the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date*’’ is referred in the SYSCOHADA as the current value and defined in the 34th article of the SYSCOHADA

(2017: 33) as: ‘‘*An estimated present value, which is assessed on the basis of the market and the usefulness of the item to the entity*’’.

The other difference between the two accounting sets is that financial statements under the SYSCOHADA in the OHADA space are both used for stakeholders and tax purpose whereas financial statements prepared under the IAS/IFRS are only intended for the financial market.

Furthermore, consolidated, and combined financial statements in the SYSCOHADA have been discussed in two different titles with numerous chapters each with models of financial statements given for every type of statement. This differs from the IAS/IFRS where both the consolidated and combined financial statements have been discussed in t a single standard which does not give a statement model of disclosing the financial statements.

Finally, we can see that despite the latest revision of the SYSCOHADA which took place in the early 2017, the accounting set of the OAHADA is leaning more and more towards the IAS/IFRS but is not yet fully compatible to the international standards and remain s tax-based regulation.

Table 16: The IASs/IFRSs and the SYSOCHADA Chapters Not Related

Chapter 6: Cost of Dismantling, Removal and Site Remediation	**IFRS 1** First-time Adoption of International Financial Reporting Standards
Chapter 9: Retention of Ownership	**IFRS 2** Share-based Payment
Chapter 11: Buildings on Other people's Land and Life Annuity Contracts	**IFRS 3** Business Combinations
Chapter 13: Securities Portfolio	**IFRS 4** Insurance Contracts
Chapter 15: Write-Offs of Receivables, Factoring and Securitization Operations	**IFRS 5** Non-current Assets Held for Sale and Discontinued Operations
Chapter 16: Shareholders' Equities and Other Equities	**IFRS 7** Financial Instruments: Disclosures
Chapter 17: Subsidies and Public Aids	**IFRS 8** Operating Segments
Chapter 19: Allocation of Bonus Shares to the Company's Employees and Managers	**IFRS 9** Financial Instruments
Chapter 20: Debenture	**IFRS 10** Consolidated Financial Statements
Chapter 22: Foreign Currency Transactions and Hedging Contracts on Financial Markets	**IFRS 11** Joint Arrangements
Chapter 24: Charges and Income Subscription	**IFRS 12** Disclosure of Interests in Other Entities
Chapter 26: Economic Interest Group	**IFRS 13** Fair Value Measurement
Chapter 27: Temporary Staff	**IFRS 14** Regulatory Deferral Accounts
Chapter 29: Permanent Inventory in Financial Accounting	**IFRS 17** Insurance Contracts

Chapter 30: Financial Commitments and Contingent Liabilities	**IAS 1** Presentation of Financial Statements
Chapter 33: Joint Operations	**IAS 7** Statement of Cash Flows
Chapter 34: Autonomous Accounting by Establishment	**IAS 8** Accounting Policies, Changes in Accounting Estimates and Errors
Chapter 35: Franchise Agreement	**IAS 12** Income Taxes
Chapter 36: Multi-Monetary Accounting	**IAS 20** Government Grants and Disclosure of Government Assistance
Chapter 37: Specific Operations of Agricultural Entities	**IAS 21** The Effects of Changes in Foreign Exchange Rates
	IAS 24 Related Party Disclosures
	IAS 26 Accounting and Reporting by Retirement Benefit Plans
Chapter 38: Mergers and Similar Operations	
	IAS 27 Separate Financial Statements
	IAS 28 Investments in Associates and Joint Ventures
Chapter 40: Liquidation	**IAS 29** Financial Reporting in Hyperinflationary Economies
Chapter 41: First Application of The Revised SYSCOHADA	**IAS 32** Financial Instruments: Presentation
	IAS 33 Earnings per Share
	IAS 34 Interim Financial Reporting
	IAS 39 Financial Instruments: Recognition and Measurement
	IAS 40 Investment Property
	IAS 41 Agriculture

As we can see in the table above, many chapters of the SYSCOHADA related to specific operations are not directly related to the IAS/IFRS. In the same way, many IAS/IFRS are not also related to the SYSCOHADA chapters. However, we should mention that even though many of these chapters and standards are not directly related to each other, the OHADA accounting despite some limitations and divergences with the IAS/IFRS in the accounting principles, have lately been very advanced in its conceptual framework. Also, it is not too different from the IAS/IFRS in terms of financial vision and information that should be disclosed in the financial statements (Degos and Souleymanou, 2018: 7).

CHAPTER 2: FINANCIAL REPORTING STANDARD FOR LARGE AND MEDIUM-SIZED ENTITIES (FRS FOR LMSE)

In this chapter, there will be a brief overview of the of the Turkish accounting system as a whole and then we will discuss Turkey's adoption of the FRS for LMSE. Furthermore, an in-depth analysis of this new accounting set will be conducted through a summary of the 27 chapters. Finally, there will be an analysis of the main similarities and differences between the IAS/IFRS and the FRS for LMSE.

2.1. The Turkish Accounting System

In this section, there will be an overview of the Turkish accounting evolution. Also, the structure of the different accounting sets and the characteristics of entities belonging to each one, are given.

The Turkish accounting standards, as for the most tax-based accounting countries, is developed under the state/government guidance (Özbirecikli et al., 2017: 5). Furthermore, the Turkish accounting has been influenced over the years by the country's political and economic relationship with partner countries. Most of the Turkish accounting regulations were from the beginning a reflect of Continental European countries with tax-based approach such as France, Germany, Belgium, Austria and so on (d'Arcy, 2001: 345; Elitaş and Üç, 2009: 676). The first accounting regulation in Turkey in the end of the 19^{th} century was mainly inspired by the French commercial code and the French accounting system. However, with the growing relationship between Turkey and Germany in the 1960s followed by an increasing presence of German companies in the Turkish private sector, the influence over its accounting system shifted from France to Germany. Following this new development, a new commercial code more in line with the German commercial code was adopted in Turkey.

In the last decades starting from the 1970s, with the growing tie with the United States of America (UAS) along with the international context of globalization, the Turkish accounting system started moving towards the Anglo-Saxon and international philosophy of accounting. This development led to several reforms and a partial adoption of the

IAS/IFRS in the early 2000s (Alp and Ustundag, 2009: 685; Simga-Mugan and Hosal-Akman, 2005: 131).

Turkish lean towards the Anglo-Saxon and the IAS/IFRS was the result of a combination of multiple factors among which the most important can be listed as the creation of the Istanbul stock exchange (ISE) with full operations in 1986, the growing number of foreign companies in the country along with big auditing firms but also an important number of local entities looking to do business abord. Thus, from 1989 listed companies has been required to publish their financial statements in line with the standards published by the Turkish capital market board (CMB) which was somehow inspired by the IFRS/IAS (Simga-Mugan and Hosal-Akman, 2005: 132).

Furthermore, the Turkey's bid for the EU membership along with the ambition of being an economic hub have been significant elements which accelerated the country's move for an overall structural transformation of its accounting system. Over the years, multiple institutions and government agencies have played an important role in shaping the Turkish accounting system. Among those institutions and agencies, some were entitled to develop a national set of accounting while others were entitled to develop sectoral-based accounting standards.

Starting from 1992, a committee organized by the Ministry of Finance with the aim of establishing accounting and developing an accounting chart delivered the work by the end of the year to be in effect in 1994. This set was meant to be used by all companies except banks and brokerage firms which were subject respectively to the Central Bank of Turkey, Banking Regulation and Supervision Agency (BRSA), and the CMB rules. In February 1994, a new standard setting body were formed as the Turkish Accounting and Auditing Standards Board (TAASB) and published 19 standards before being replaced by the Turkish Accounting Standards Board (TASB) in 2002 (Simga-Mugan and Hosal-Akman, 2005: 132–133).

The TASB was put in place to alleviate the multi-standards setting that was going on in Turkey and, also bring in some harmony in the accounting practices. The organization was authorized by a specific article of the Capital Market Law to develop accounting standards. The TASB was given the responsibility of determining and issuing national accounting standards that would promote development and common practices and principles. After the first meeting on March 7, 2002, the TASB started operations for developing accounting standards. In the effort to align the Turkish accounting standards with the IAS/IFRS, the TASB signed an agreement with the International Accounting Standards Committee Foundation (IASCF) and was granted the right to translate the IAS/IFRS in Turkish (Özbirecikli et al., 2017: 8; Yalkın et al., 2008: 285–286).

The new Turkish Commercial Law (TTK-Türk Ticaret Kanunu) number 6102 published in 2011 and put into effect the following year in 2012 had put forward provisions for the preparation of financial statement and the adoption of the IAS/IFRS. This development can be considered as a milestone in Turkey’s full adoption of the IAS/IFRS for some category of companies. Furthermore, given the international context and the new commercial law along with regulations of entities subject to an independent audit, a new standard setting body was created with the law No. 660 on the Organization and Duties of the Public Oversight Accounting and Auditing Standards Authority. Thus, with the creation of the POA (KGK in Turkish) in November 2011 as the independent standard setting body taking over from the TASB with more authority such as enforcement and oversight a path towards a harmonized accounting practices was set (Özbirecikli et al., 2017: 8).

The main objectives of the POA as an independent body is to protect the interest of investors and the public by ensuring truthful and independent auditing, but also the presentation of comparable and trustful financial information. The POA is also entitle with the oversight of listed entities, banking companies, insurance companies and other large entities. Furthermore, the POA is the only body that prepare and publish both the Turkish Accounting and Auditing Standards in line with the IAS/IFRS (Özbirecikli et al., 2017: 8).

We can see that the Turkish accounting system has evolved on a gradual basis with multiple back and forth over the years. However, the process of accounting harmonization is still an ongoing process even if a lot of progress has been made since the creation of the POA. A full adoption of the IAS/IFRS has been met for number of entities especially for those listed on the Borsa İstanbul (BİST). Another set also in line with the IAS/IFRS for large and medium entities the FRS for LMSE has been in effect since 2018. This has been a tremendous progress for the Turkish accounting system over the last decades.

However, the tax-based accounting is still in practice for small and micro-entities which are subject to the General Communiqué on Accounting System Application (GCASA-MSUGT in Turkish). A new set accounting set for small and micro entities intended to replace the MSUGT has published and will be in force as of 2022. Once in force, it will be the completion of the Turkish accounting transformation to be fully in line with the IAS/IFRS.

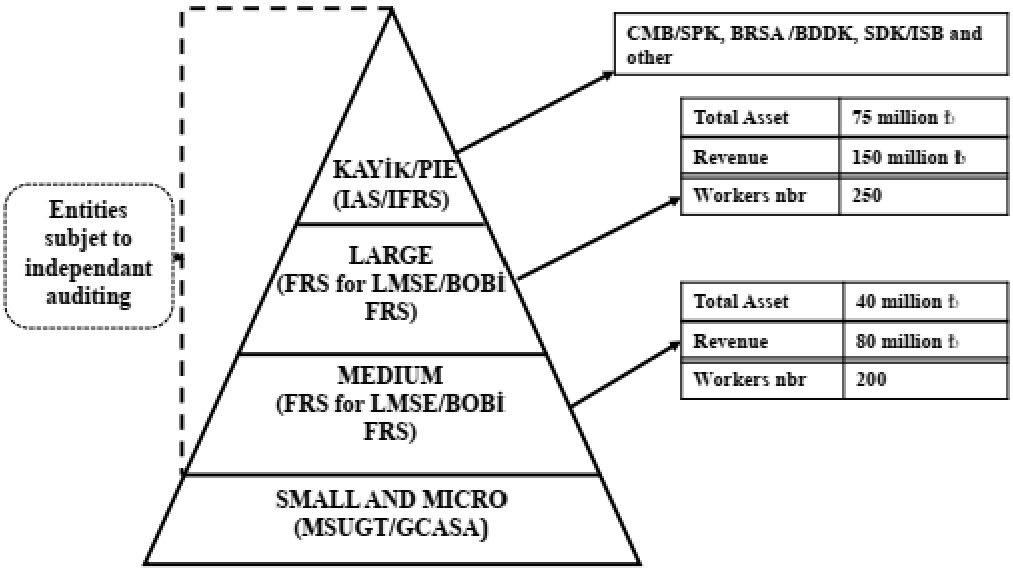

Figure 5: The Turkish accounting structure

Source: KGK, BOBİ FRS Tanıtım Toplantısı, İstanbul (14.09.2017), (From: (Cavlak and Ataman, 2017: 157)

NB: This threshold values for large entities have been updated for the fiscal year of 2021. The new amounts are *200 million Turkish Lira* for total assets and *400 million Turkish Lira* for annual revenue (KGK, 2021).

From the graph above, we can see the accounting structure in place in Turkey. The first category being the Public Interest Bodies (KAYİK-PIE) comprising listed entities, banking companies, insurance companies and other. These entities are required to fully comply with the IAS/IFRS to present their financial statements. The second category comprise both large and medium entities which are required to comply with the FRS for LME. Let us mention that an entity is categorized as a large or medium entity once it meets two out of the three criteria related to total asset, annual turnover, and number of employees for two successive fiscal years. By meeting those criteria, from the third year, the company becomes subject to independent auditing and belong to the category of either a large or medium entity (Cavlak and Ataman, 2017: 157). Entities belonging to the third category considered as small and micro entities are subject to the MSUGT for the annual presentation of their financial statements.

In summary, the Turkish accounting system has been a tax-based approach for a long time. This tendency was influenced by its European partners, notably France and Germany. However, in recent years, we have been witnessing a more market-oriented accounting practices in Turkey thanks to the creation of the stock exchange, the bid to join the EU and the growing influence of the IAS/IFRS around the world. Currently, three accounting sets characterize the Turkish accounting ecosystem: the IAS/IFRS for listed and PIE, the FRS for LMSE, the MSUGT/GCASA for small and micro entities which may soon be replaced by a new set more in line with the IFRS/IAS.

2.2. Turkey's Adoption of the FRS for LMSE

In this section, the main reasons for Turkey to adopt the accounting standards for large and medium sized entities as well as the important features of this new set are discussed.

The EU accounting directive's Regulation No. 1606/2002 which limited the scope of IAS/IFRS to listed companies led to the necessity of preparing separate financial reporting standards for entities not included in the scope. This perspective has been followed in a global level with many countries following the same path. And this development has had an impact on Turkey's developing and adopting the FRS for LMSE (Mozeikçi and Şahinoğlu, 2018: 39).

In Turkey, up to the renewal of the commercial code in 2012, the TFRS as the Turkish translation for the IFRS were only applicable for publicly traded companies as was specified by the Turkish CMB. The new code required other companies subject to independent auditing to comply with the IAS/IFRS. That adoption of the IAS/IFRS for all entities subject to an independent auditing requirement had had some downsides due to the complexity of applying them and made them less attractive for certain category of entities which did not have much interest in that forceful adoption. The move put several companies in an uncomfortable position as they were not prepared. Therefore, this prompted the POA to step back and limit the requirement of presenting financial statements using the IAS/IFRS only for public interest bodies even before the enforcement of the legislation. Thus, other entities subject to independent auditing were required to continue following the MSUGT along with some extra additional regulations up to the preparation of a new set of accounting (Cavlak and Ataman, 2017: 154; Gücenme Gençoğlu, 2017: 2).

The MSUGT in force since 1994 has been the main set for accounting records and reporting (preparation of financial statements) in Turkey for most entities ever since. However, this accounting set being less relevant in a changing economic and technology context, the POA, in the scope of its obligations and following a long period of work starting from 2014, decided on the July 29th, 2017 to adopt a new set of accounting standards called the Financial Reporting Standards for Large And Medium-Sized Entities (FRS for LMSE) which are out of the scope of the PIE but subject to requirements related to independent auditing and not required to apply the TFRS. Furthermore, a new draft chart of accounts intended to replace the old one under the MSUGT has been published by the POA in December 2018. This new chart, once completed, will be in line with the most recent accounting reforms (Özbirecikli et al., 2017: vii).

The FRS for LMSE (BOBİ-FRS) will harmonize standards for entities other than the PIE and subject to independent auditing and will eliminate the drawback of applying double standards in independent audits by partially removing the application of the MSGUT which will be henceforth only applied for the small and micro entities at least until 2022. The FRS for LMSE is not only in line with the IAS/IFRS it also takes into accounts the EU directives on accounting and comprise 27 chapters. Medium entities use general regulations while large entities are subject to further obligations (Gücenme Gençoğlu, 2017: 2).

The purpose FRS for LMSE is to ensure that financial statements are prepared with respect to truthfulness, useful financial information needs and comparability. The KGK-POA has also allowed companies using this new set to prepare their financial statements following the IAS/IFRS if they chose to do so. As of 2016, there were 6250 entities subject to independent auditing among which only 1550 were categorized as PIEs and therefore subject to the IAS/IFRS. The remaining 4700 entities would be subject to the FRS for LMSE starting from 2018 (KGK, 2017).

The general features of the FRS for LMSE according to KGK-POA might be summarized as follows (KGK, 2017):

- ✓ It is a full set of accounting standards made of 27 chapters which respond to all the needs for the preparation of financial statements.
- ✓ It meets all the requirements and characteristics for the preparation of accepted financial statements.
- ✓ The FRS for LMSE is both in line with the IAS/IFRS and the UE directives.
- ✓ The FRS for LMSE is also in line with the <<*think small first*>> approach of the UE directive.
- ✓ The accounting set has unlike the IAS/IFRS, an example of individual and consolidated financial statements attached to it.
- ✓ The standards have been written in a simple and comprehensible manner.

As we can see, the FRS for LMSE was adopted in response to the complexity and double standardization that were once characterize the Turkish accounting system. Thus, the adoption of this new set has been a crucial point for the transition process towards a more harmonized accounting system. Also, being mostly inspired and in line with the IAS/IFRS, the FRS for LMSE will make easier for entities within its scope to not only produce truthful and reliable financial statement but to comply with the IAS/IFRS once needed.

2.3. The FRS for LMSE Chapters

In this table below, the FRS for LMSE chapters and annexes have been given as listed by Cavlak and Ataman (2017: 155) in line with the FRS for LMSE set published by the POA (KGK) in 2017.

Table 17: The FRS for LMSE and its Annexes

27 CHAPTERS	**Chapter 1:** Conceptual Framework and Financial Statements	**Chapter 2:** Statement of Cash Flow	**Chapter 3:** Accounting Policies, Estimates and Errors
	Chapter 4: Events After the End of The Reporting Period	**Chapter 5:** Revenue	**Chapter 6:** Inventories

	Chapter 7: Agricultural Activities	**Chapter 8:** Exploration for And Evaluation of Mineral Resources	**Chapter 9:** Financial Instruments and Equity
	Chapter 10: Investments in Associates Joint Ventures	**Chapter 11:** Investments In Joint Ventures	**Chapter 12:** Property, Plant and Equipment
	Chapter 13: Investment Property	**Chapter 14:** Intangible Assets	**Chapter 15:** Leases
	Chapter 16: Government Grants	**Chapter 17:** Borrowing Costs	**Chapter 18:** Impairment of Assets
	Chapter 19: Provisions, Contingencies Liabilities and Contingencies Assets	**Chapter 20:** Foreign Currency Translation	**Chapter 21:** Business Combinations
	Chapter 22: Consolidated Financial Statements	**Chapter 23:** Taxes on Income	**Chapter 24:** Interim Financial Reporting
	Chapter 25: Financial Reporting in Hyperinflationary Economies	**Chapter 26:** Notes	**Chapter 27:** Transitional Requirements
9 ANNEXES	**A1:** Statement of Financial Position	**A2:** Statement of Profit or Loss	**A3:** Statement of Changes in Equity
	A4: Statement of Cash Flows	**A5:** Consolidated **S**tatement of Financial Position	**E6** Consolidated Statement of Profit or Loss
	A7: Consolidated Statement of Changes in Equity	**A8:** Statement of Cash Flows	**A9:** Definitions

2.4. Summary of the FRS for LMSE Chapters

In this section, we will discuss more in depth the FSR for LMSE by providing a summary of each of the 27 chapters that made up this accounting set. The summary will mainly focus on the main issues covered by each standard and therefore give a clear understanding of each one.

2.4.1. Chapter 1: Conceptual Framework and Financial Statements

This chapter lays down all principles for preparing and presenting financial statements according to this accounting set. In doing so, it explains the requirement in presenting financial statement, the characteristics that should bear financial information and the minimum content of financial statements to ensure a fair presentation of an entities' position.

The main purpose of financial statements is to give useful financial information about an entity's financial position, performance and cash flows for relevant decisions making of the related parties (FRS for LMSE, 2019: pr.1.2). As minimum, financial statements comprise a Statement of Financial Position, a Statement of Profit or Loss, a Statement of Cash Flows, a Statement of Changes in Equity and Notes (FRS for LMSE, 2019: pr.1.3). These statements should be presented in a way to reflect fairly the assets, liabilities, equity, performance, and cash flows (FRS for LMSE, 2019: pr.1.5).

Characteristics of useful financial information are defined in this chapter as relevance, faithful representation, understandability, comparability, and timeliness (FRS for LMSE, 2019: pr.1.7). The principles of general financial reporting are listed as going concern, accrual basis, prudence, materiality in the presentation of financial statements, offsetting, frequency of reporting, comparative information, consistency of presentation (FRS for LMSE, 2019: pr.1.14-1.26).

As regards to information to be included in an entity's financial statements, we have first, general information on the entity' identity and the accounting process. Second, for each financial statement, we have specific required information. General information includes the reporting entity's name and name changes since the previous reporting period if any. Also, whether the financial statements are individual or consolidated. Other information such as: the final date of the reporting period and the period covered by the financial statements should also be disclosed along with the currency used, and the level of rounding for different amounts if any (FRS for LMSE, 2019: pr.1.28).

On information required to be included in the financial statements, elements such as assets, liabilities and equity are required the Statement of Financial Position (FRS for LMSE, 2019: pr.1.30). Also, the basis of measurement of assets and liabilities as defined in this standard, is the cost (historical cost) at the initial recognition, unless otherwise specified, such as the fair value for this standard (FRS for LMSE, 2019: pr.1.34). This statement is presented following the example in appendix 1 for individual financial statements and following the example in appendix 5 for consolidated financial statements (FRS for LMSE, 2019: pr.1.38). For the Statement of Profit or Loss, the required elements are incomes and expenses over a given period (FRS for LMSE, 2019 pr.1.47). This statement is prepared following the example in appendix 2 for individual financial statements and appendix 6 for consolidated financial statements (FRS for LMSE, 2019: pr.1.51). For the Statement of Changes in Equity, changes in the items' balances between the opening and the closing reporting period should be presented. This statement should be presented following the model given in appendix 3 for individual financial statements and in in appendix 7 for consolidated financial statements (FRS for LMSE, 2019: pr.1.56). The Statement of Cash Flows is discussed in the second chapter and should be prepared accordingly.

2.4.2. Chapter 2: Statement of Cash Flows

This chapter not only discusses the type of information that should be presented in the statement of cash flows but also the way information should be presented. The statement of cash flows displays separately the inflows and outflows of cash and cash equivalent in operating activities, investing activities and financing activities (FRS for LMSE, 2019: pr.2.1).

The statement of cash flows is prepared following examples given in the annex 4 for individual entities and in the annex 8 for entities subject to preparing consolidated financial statements (FRS for LMSE, 2019: pr.2.2). Furthermore, cash and cash equivalent described in this chapter comprise respectively cash on hand plus demand deposits, for cash and short-term highly liquid investments subject to an insignificant risk of changes in value, for cash equivalent (FRS for LMSE, 2019: pr. 2.3-2.4). Bank overdrafts can be considered as cash or cash equivalent if they are repayable on demand and form an integral part of an entity's cash management (FRS for LMSE, 2019: pr.2.4).

The statement of cashflow presents cash flows in three main rubrics: operating activities, investing activities and financing activities (FRS for LMSE, 2019: pr.2.7). Operating activities are mainly the principal revenue-producing activities of the entity (FRS for LMSE, 2019: pr.2.8). Investing activities are defined mainly as the acquisition and disposal of long-term assets (FRS for LMSE, 2019: pr.2.14). Finally, financing activities involve changes in the equity and liability structure of an entity (FRS for LMSE, 2019: pr.2.15).

The cash flows statement is prepared following two main methods: the direct and indirect method (FRS for LMSE, 2019: pr.2.9). On one hand, the direct method suggests that gross cash inflows and gross cash outflows should be separately presented by major groups (FRS for LMSE, 2019: pr.2.10). On the other hand, the indirect method suggests starting form profit before tax for operating activities adjusted by other elements such as: non-cash items, changes during the period in inventories, operating receivables, and payables; and other items for which the cash flow effects are investing or financing (FRS for LMSE, 2019: pr.2.13).

Also, gains and losses resulting from changes in the exchange rates of foreign currencies are not considered as cash flows since they do not cause any cash movement (FRS for LMSE, 2019: pr.2.20). Interests and dividends either paid or received are cash flows and should be classified accordingly in operating, investing, or financing activities cash flows (FRS for LMSE, 2019: pr.2.21). Cash flows with regards to taxes are generally classified as operating activities (FRS for LMSE, 2019: pr.2.23), and investments in subsidiaries, associates and joint ventures are classified as either investing or financing cash flows.

2.4.3. Chapter 3: Accounting Policies, Estimates and Errors

In this chapter, it has been put forwards principles related to the selection, application and changing of the accounting policies and requirements for changes in accounting estimates and corrections of errors. An entity can consider both provisions included in this chapter and those provided in the IFRS 1 *First-time Adoption of International Financial Reporting Standards* when determining it accounting policies (FRS for LMSE, 2019: pr.3.6). Furthermore, accounting policies should be consistent both for similar transactions and events and the reporting periods (FRS for LMSE, 2019: pr.3.6). Also, any accounting policy which does not lead to a reliable and relevant information on their effects in the financial positions or operating results should be changed to better represent the entity’s financial situation and changes must be applied retrospectively (FRS for LMSE, 2019: pr.3.8-3.9). Changes that have an impact on current or prior periods should be disclosed so is for subsequent period (FRS for LMSE, 2019: pr.3.15). With regards to accounting estimates, the revision of an estimate is different from the correction of an error and therefore is not related to prior periods (FRS for LMSE, 2019: pr.3.18). Also, a change in accounting policy or estimate is considered to be a change in an accounting estimate when it is difficult to distinguish one from another (FRS for LMSE, 2019: pr.3.19). Also, changes in accounting estimates and its effects as for changes in accounting policies should be disclosed for the current reporting period (FRS for LMSE, 2019: pr.3.22).

Errors range from mathematical mistakes, misapplication of accounting policies, misinterpretation or overlook of facts and fraud (FRS for LMSE, 2019: pr.3.24). Such errors or mistakes are labelled as ‘‘*material prior period errors’’* (FRS for LMSE, 2019: pr.3.27). Therefore, they require retrospective restatement (FRS for LMSE, 2019: pr.3.28). The disclosure of prior period errors includes information about the nature of the prior period error, the amount for each financial stamen line affected over periods and for the beginning of the earliest prior period. Also, in any case that there is no possibility to determine the amount, the reason should be stated (FRS for LMSE, 2019: pr.3.32). In addition, a supplementary Statement of Financial Position for the earliest comparative period is also presented with an exception for immaterial adjustment (FRS for LMSE, 2019: pr.3.33).

2.4.4. Chapter 4: Events After the End of the Reporting Period

In this chapter, events that occur after the reporting period and principle related to those events are discussed. Post reporting period events are defined as events favorable or unfavorable occurring between the end of the reporting period and the date of authorization for disclosure by the management team. Furthermore, post reporting period events are classified as adjusting events and non-adjusting events (FRS for LMSE, 2019: pr.4.2). On one hand, adjusting events such as: a court case confirming that the entity had a present obligation at the end of the reporting period, information posterior to the end of the reporting period suggesting that an asset was impaired at the end of the reporting period, discovery of fraud or errors showing that financial statements are incorrect, all require necessary adjustment of the financial statements (FRS for LMSE, 2019: pr.4.5). On the other hand, however, with non-adjusting events, such as a decline in market value of investments, a disposal of a major subsidiary or major business combination, the destruction of a major production plant by a fire etc., there is no adjustment to be made in the financial statements (FRS for LMSE, 2019: pr.4.7-4.8).

Finally, the going concern being the base for preparing financial statement, any changes in that assumption should be clearly explained in the notes (FRS for LMSE, 2019: pr.4.10).

2.4.5. Chapter 5: Revenue

In this chapter, principles related to revenue recognition and measurement are discussed. Revenue is defined as the income arising from an entity's ordinary activities (FRS for LMSE, 2019: pr.5.2). Those activities cover the sale of goods, the rendering of services, contracts for constructions, interest, royalties, and dividend from the use of assets by other entities (FRS for LMSE, 2019: pr.5.3). However, incomes from leases, investment in associates and joint ventures, changes in the fair value of financial assets, liabilities, or their disposal, changes in the fair value of investment properties along biological assets and agricultural products, are all excluded from the scope of the revenue and they are discussed separately in other chapters (FRS for LMSE, 2019: pr.5.5).

The recognition criteria for the revenue are the probability that the economic benefit might flow into the entity and which can be reliably measured, and each criterion should be applied separately from the other for separate transactions (FRS for LMSE, 2019: pr.5.5-5.6). For the revenue measurement, it should be based on the amount received and receivables after deduction of cash discounts and rebates (FRS for LMSE, 2019: pr.5.5), and for amount to be collected over more than one year, distinction of maturity should be made by using the effective interest method (FRS for LMSE, 2019: pr.5.5). For goods and services exchanged with other goods and services having a similar nature and value, no revenue arises from such transactions. However, on the contrary, when goods or services are dissimilar a revenue arise and should be measured using the fair value of the goods or services received if reliably measurable otherwise the fair value of the goods and services given up are used the base for measuring the revenue. In the case where neither the fair value of goods or services received and given up cannot be measured, the carrying amount of the goods or services given up are used for as the measure for the revenue of the transaction (FRS for LMSE, 2019: pr.5.12).

The recognition of revenue related to sale of goods is done following five (5) conditions which are: *The transfer of the significant risks and rewards of ownership to the buyer; the handover of control over the goods sold; the possibility to reliably measure the amount of revenue; the probability that the economic benefits associated with the transaction will flow into the entity; and the possibility of reliably measuring the costs incurred or to be incurred in relation to the transaction* (FRS for LMSE, 2019: pr.5.14). As for revenue from service rendering, the percentage of completion method is the basis for revenue recognition (FRS for LMSE, 2019: pr.5.18). However, for services performed in an indeterminate number of acts over a specified period, revenue recognition should be on a straight-line basis over the specified period (FRS for LMSE, 2019: pr.5.20). Service-related revenues are recognized when all the following conditions are met: *the revenue amount can be measured reliably; the probability that the associated economic benefits with the transaction will flow into the entity; the level of completion of the transaction at the end of the reporting period is reliably measurable; and the costs incurred both for the transaction and the completion of it can be reliably measured* (FRS for LMSE, 2019: pr.5.19). In the case where the transaction for service rendering cannot be reliably measurable, the revenue to be recognized should be at the level of the expected amount of the expenses to be covered (FRS for LMSE, 2019: pr.5.21).

The revenue recognition for construction contracts as for services, use the percentage of completion method (FRS for LMSE, 2019: pr.5.23). Also, interest, royalty and dividend income are all recognized in the financial statements once they meet the general criteria for revenue recognition (FRS for LMSE, 2019: pr.5.40). Furthermore, interest is recognized using the effective interest method, the royalties using the accrual basis and for dividends using the shareholder’s right to receive payment is established (FRS for LMSE, 2019: pr.5.41).

2.4.6. Chapter 6: Inventories

In this chapter, accounting principles within the scope of an entity’s ordinary activities regarding assets held or produced for sale and raw materials and other materials used in the production process or service delivering are established. Inventories are recognized following the cost incurred for their acquisition. The cost of inventories includes all purchase costs, conversion costs, and other costs related to bringing inventories to their present place and condition (FRS for LMSE, 2019: pr.6.6). However, borrowing cost related to inventories should not be included in the cost of inventories (FRS for LMSE, 2019: pr.6.9). For inventories purchased at a maturity of one year or less, the incurred should directly be included in the profit or loss statement and should not be included in the cost of inventories (FRS for LMSE, 2019: pr.6.8). The conversion cost includes costs directly associated with the process of converting resource and materials into semi-finished and finished goods, such as direct labor expenses. Production overhead direct and indirect cost are also systematically included in this process (FRS for LMSE, 2019: pr.6.11). The full cost method is used for determining the conversation cost (FRS for LMSE, 2019: pr.6.12). Furthermore, the use of the normal method is also allowed. In such case, the unallocated overheads are recognized in the profit and loss statement in "Cost of Sale" in the period that they are incurred (FRS for LMSE, 2019: pr.6.13).

For subsequent periods, the cost of inventories is calculated based on the first in, first out (FIFO) method or by using the weighted average cost formula (FRS for LMSE, 2019: pr.6.20). Cost of finished goods are determined based on the realized amount of production overheads following the actual cost method. However, if the results approximate the actual cost calculation, other evaluation method such as the standard cost method or the retail method can be used (FRS for LMSE, 2019: pr.6.19).

Inventories are measured at the cost price and net realizable value. The net realizable value is the estimated selling price in the scope of ordinary course of business activities minus the estimated completion costs and the estimated costs necessary to carry out the sale (FRS for LMSE, 2019: pr.6.4). In case of impairment loss, the loss is recognized in the Statement of Profit or Loss as "Cost of Sales" (FRS for LMSE, 2019: pr.6.22.

2.4.7. Chapter 7: Agricultural Activities

In this chapter, principles related to biological assets recognition and measurement at the point of harvest for entities doing agricultural activities is established. Those activities exclude any agricultural produce that occur after harvest (FRS for LMSE, 2019: pr.7.1). In this chapter, biological activity is defined as the management of biological transformation and the harvest of assets resulting from that process for the purpose of sale, conversion or to an another added biological asset. Furthermore, biological asset is defined as a ''*living animal or plan*'' (FRS for LMSE, 2019: pr.7.2).

Biological assets are recognized in line with the asset definition of the FRS for LME and should be measured by using two main methods: the fair value model and the cost model (FRS for LMSE, 2019: pr.7.5). However, in the case when the cost model is used as the measurement model, the biological assets will therefore be subject to depreciation and the measured at the cost minus any accumulated depreciation or accumulated impairment loss (FRS for LMSE, 2019: pr.7.9).

Biological assets are disclosed in the Statement of Financial Position following principles of the FRS for LMSE (FRS for LMSE, 2019: pr.7.13).

2.4.8. Chapter 8: Exploration for and Evaluation of Mineral Resources

In this chapter, basis for the measurement and recognition of exploration and evaluation of mineral resources and other similar resources are discussed. Regarding the initial recognition, it is up to the entity through its accounting policy to define expenditures that are recognized as exploration or evaluation assets (FRS for LMSE, 2019: pr.8.2). However, the initial recognition should be at cost (FRS for LMSE, 2019: pr.8.4). Following this first recognitions, exploration and evaluation assets are measured by deducing depreciation and any asset impairments from the cost value (FRS for LMSE, 2019: pr.8.7). We should also, mentioned that, in line with this accounting standards, expenditures that are related to the development of mineral resources are not recognized as exploration and evaluation assets (FRS for LMSE, 2019: pr.8.5). Exploration and evaluation assets are also subject to impairment assessment once necessary (FRS for LMSE, 2019: pr.8.8). Finally, exploration and evaluation should be classified as tangible or intangible assets according to their nature (FRS for LMSE, 2019: pr.8.10).

2.4.9. Chapter 9: Financial Instruments and Equity

In this chapter, principles related to financial assets and financial liabilities on one hand and bases for equity instrument on the other hand are established. Accounting bases for subsidiaries, associates, joint ventures, and issues for financial instruments discussed in other chapters are considered to be out of the scope of this chapter (FRS for LMSE, 2019: pr.9.2).

A financial instrument is defined as a contract which gives rise to a financial asset for an entity while giving rise to financial liability or equity instrument of another entity.

Furthermore, an equity instrument is any contract that provides a right in the assets of an entity after deduction of all its liabilities (FRS for LMSE, 2019: pr.9.3). Also, while the classification of these instruments should be based on the contractual arrangement, entities should also consider the IAS 32 related to financial instruments presentation to make the classification (FRS for LMSE, 2019: pr.9.4).

As for the recognition, it is only when an entity become a party to a contract that it should proceed with the recognition of a financial asset or liability (FRS for LMSE, 2019: pr.9.5). Having less than one-year period between the recognition and the date of payment, the subscribed capital called for payment, receivables and payables are measured at the nominal value. However, for payables and receivables other than subscribed capital called for payment, they are measured at the amortized cost once the payment period after the initial recognition is longer than one year (FRS for LMSE, 2019: pr.9.8). For debt instrument, they are measured at the amortized cost for those other than trade receivables, other receivables, trade payables, other payables, and similar instruments (FRS for LMSE, 2019: pr.9.11). The equity instruments measurement depends on whether they are publicly traded or not. For publicly traded equity instruments the initial recognition is done at the transaction price with transaction cost recognized in profit or loss. On the other hand, non-publicly traded equity instruments are measured at the cost amount for the initial recognition. Furthermore, for the subsequent measurement, the fair value method should be used for publicly traded stocks with arising differences included in the profit or loss. For non-publicly traded stocks, impairment losses should be evaluated at the end of each fiscal period and deduced from the cost amount (FRS for LMSE, 2019: pr.9.20-9.21). Financial instruments different from receivables, payables, debt, and equity instruments are classified in the category of other financial instruments (FRS for LMSE, 2019: pr.9.22). However, even though buy or sell contracts of non-financial items are excluded from the scope of financial instruments, they become part of it once the risks on the buyer or seller are different from a typical buy or sell contract (FRS for LMSE, 2019: pr.9.23).

Also, financial assets, as for many other categories of assets, are all subject to impairment assessment once they are not measured at the fair value as suggested in this chapter (FRS for LMSE, 2019: pr.9.32). For each of those financial assets, it should be assessed at the end of the reporting period weather an objective evidence of impairment has occurred and in such case an impairment loss is recognized in the "*Other Losses from Operating Activities*" for receivables and "*Losses from Financial Investments*" for other financial assets (FRS for LMSE, 2019: pr.9.33). In the case of decrease in the impairment loss for the subsequent period, the impairment losses should be reversed and include in Profit and Loss Statement as "*Other Gains from Operating Activities*" for trade receivables, and "*Gains on Financial Investments*" for other financial assets (FRS for LMSE, 2019: pr.9.38).

Financial assets and liabilities are both derecognized once some conditions are fulfilled. In one hand, a financial liability is only derecognized once it is no longer due (FRS for LMSE, 2019: pr.9.42). On the other hand, financial assets are derecognized once the four following requirements are fulfilled. Those requirements are first, the settlement or experiment of the cash flows from the given asset. Second, transfer of risks and rewards to other parties. Third, transfer of control to another party which will have the ability to sell the asset. Fourth, no recovery from the value of the financial asset is expected (FRS for LMSE, 2019: pr.9.39).

Finally, the FRS for LME uses hedge accounting to leverage some risks related to financial and equity instruments following specific conditions (FRS for LMSE, 2019: pr.9.46). However, foreign exchange risk of a receivable along with payable and debt instrument measured at mortised cost are not included within the scope of hedge accounting (FRS for LMSE, 2019: pr.9.47).

2.4.10. Chapter 10: Investments in Associates

In this chapter, accounting principles related to the investment in associate have been discussed. An associate is defined as an entity that include a partnership in which an investor has a significant influence (FRS for LMSE, 2019: pr.10.2). An associate is different from a subsidiary or a joint venture. Significant influence is a very important subject in associate investment and is defined as the ability for an entity to participate in the decision-making process over an investee on financial and operating policy issues (FRS for LMSE, 2019: pr.10.3). The significant influence is obvious once an investor possesses 20 per cent or more voting power over an investee, unless this can be proven otherwise (FRS for LMSE, 2019: pr.10.4). However, there is also a significant influence, once it can be clearly demonstrated and even when the 20 percent requirement is not meet (FRS for LMSE, 2019: pr.10.5).

In terms of measurement, the initial recognition of associate is done at cost (FRS for LMSE, 2019: pr.10.7). For subsequent measurement, associates are measure at either the cost method or equity method. In the individual financial statements, the cost and equity method are used for measurement while in the consolidate financial statements only the equity method is used (FRS for LMSE, 2019: pr.10.9-10.10). In case where the cost method is used, impairment losses should be evaluated whenever they occurred and should be deduced from the cost (FRS for LMSE, 2019: pr.10.18).

2.4.11. Chapter 11: Investments in Joint-Ventures

Accounting principles for economic activities undertaken by two or more parties within the framework of a contractual agreement and defined as a joint agreement, are discussed in this chapter. There are three different types of joint ventures defined in the FRS for LME. These are: jointly controlled operations, jointly controlled assets, and jointly controlled entities according to their form of formation (FRS for LMSE, 2019: pr.11.4).

First, for jointly controlled operations, properties, plants, and equipment as well as inventories are used by each party on its own and so is for the expenses and liabilities related to activities. Also, the revenue and incurred expenses are shared based on the agreement that constitute the joint venture (FRS for LMSE, 2019: pr.11.15). Second, for jointly controlled assets, it involves a common control of assets used in the purpose of the joint venture and the revenue from those assets along with the expenses are shared within the framework of the parties' agreement (FRS for LMSE, 2019: pr.11.10). And for each party or venturer involved in a jointly controlled assets, it should recognize assets, liabilities, incomes, and expenses proportionally to its interest and following the agreement of the joint venture (FRS for LMSE, 2019: pr.11.12). Third, for a jointly controlled entities, another entity is established within which parties or venturers have interests (FRS for LMSE, 2019: pr.11.14). These types of joint venture are treated as investment in associated and are therefore measured accordingly (FRS for LMSE, 2019: pr.11.15).

2.4.12. Chapter 12: Property, Plant and Equipment

Accounting principles related to property, plant and equipment are established in this chapter. Also, recognition methodologies, depreciation, impairment and carrying amount related to those elements are discussed (FRS for LMSE, 2019: pr.12.1). However, sparts and other elements such as stand by and service equipment are not included in the scope of this chapter unless they meet the definition requirement of property, plant, and equipment (FRS for LMSE, 2019: pr.12.2). Furthermore, assets such as buildings are separate from the land on which they are built and therefore should be separated and recognized on their own differently even in the case where they are acquired together (FRS for LMSE, 2019: pr.12.5).

With regard to the recognition methodology, property, plant and equipment are recognized at the initial level by their cost (FRS for LMSE, 2019: pr.12.6). The costs of these assets are defined by their purchase price from which trade discount and rebates are deduced and incurred expenses up to the level where the asset can operate in the manner intended are added (FRS for LMSE, 2019: pr.12.7). Also, for purchases with less than one-year maturity, the cash paid and expected to be paid is the measurement basis with no maturity distinction while the purchases with more than one-year maturity are measured by distinction of maturity using the effective interest method and the maturity amount difference is recognized as interest expenses (FRS for LMSE, 2019: pr.12.9). Furthermore, borrowing costs related to these items should be recognized respectively to the period they are incurred unless the construction of these assets last longer than one year and in such case borrowing costs are recognized in their cost up to the date when they are ready for use (FRS for LMSE, 2019: pr.12.10).

As for subsequent recognition, accumulated depreciation, and impairment (in case there is any) are deduced from the initial recognized cost (FRS for LMSE, 2019: pr.12.15). However, for revaluated property, plant and equipment, the revaluated amount will therefore be based on the fair value of the revaluation date (FRS for LMSE, 2019: pr.12.16). Furthermore, in case whereas a revaluation contributes to an increase of the carrying amount of the asset, the difference from the carrying amount should be recognized as “Revaluation Reserve” in the Statement of Financial Position in the entity’s equity items. In other cases where the revaluation result to a decrease of the carrying amount of the assets, the decrease should be deduced form the revaluation reserve of the same asset at the same extent and if there is any remaining decrease, the amount should be included in the Profit and Loss statement and any further increase in the future should be included in the profit and loss at extent in which it reverses any previous loss (FRS for LMSE, 2019: pr.12.19).

Under the FRS for LME as for other financial standards, depreciation is required for property plant and equipment (FRS for LMSE, 2019: pr.12.21). However, land and terrains which have an unlimited useful life are excluded from the scope of depreciation (FRS for LMSE, 2019: pr.12.23). Also, for property plant and equipment that have different parts, with different useful life, are all separated from one another for the purpose of depreciation (FRS for LMSE, 2019: pr.12.22). The cost or revaluation amount of an assets minus its residual value constitute the depreciable amount (FRS for LMSE, 2019: pr.12.24), and multiple depreciation methods are authorized and can be listed a straight-line method, a diminishing balance method, a unit of production method and son so forth (FRS for LMSE, 2019: pr.12.29). In final, the annual depreciation of an assets is included in the Profit and Lost Statement (FRS for LMSE, 2019: pr.12.32).

Finally, once disposed, or future economic benefits are no longer expected, property, plant and equipment should be derecognized and the gain or loss related to the derecognition is recognized as profit or loss (FRS for LMSE, 2019: pr. 12.35-12.36). Also, it worth mentioning that all these principles apply to the same extent for self-constructed or produced assets (FRS for LMSE, 2019: pr.12.11).

2.4.13. Chapter 13: Investment Property

An investment property is an asset hold by an entity for the purpose of generating income independently from other asset held by the same entity. Those generated cash flows can be in form of rental income or capital appreciation (FRS for LMSE, 2019: pr.13.2). In this chapter, principles and measurement for investments property are discussed in detail. An investment property can be a property constructed or developed for the purpose or a property held by the owner. It can also be property held through a finance lease by a lessee (FRS for LMSE, 2019: pr.13.3).

Initial recognition and measurement for investment properties is made following the cost method while the subsequent measurement is done by using either the fair value method or the cost method (FRS for LMSE, 2019: pr.13.5-13.7). Furthermore, once an asset held through an operating lease becomes an investment property, recognition related to such investment property should therefore be done following financial leasing requirements (FRS for LMSE, 2019: pr.13.6). In cases where there is not a possibility to determine the fair value without excessive cost or effort the cost method should be used and once it becomes possible to evaluate the assets using the fair value again this method should be used and differences from previous measurement should be recognized in the profit and loss (FRS for LMSE, 2019: pr.13.10).

In cases where the purpose of an asset changes from being an investment property, the given asset should be transferred to property, plant, equipment, or inventories following the new purpose of the asset. This is true for the other way around where inventory, property, plant, and equipment are held for investment purposes (FRS for LMSE, 2019: pr.13.16-13.18).

Finally, assets held as investment properties should be presented separately in the Statement of the Financial Position as "*Investment Property*". Also, an investment property should be derecognized once they are disposed of or economic benefits are no longer expected and gains or losses resulting from such operations are recognized in the profit or loss (FRS for LMSE, 2019: pr.13.22).

2.4.14. Chapter 14: Intangible Assets

In this chapter, accounting principles for intangible assets have been established and all accounting process related to them as well have been discussed (FRS for LMSE, 2019: pr.14.1). Intangible assets are defined as non-monetary assets with no physical substance and these assets can be identifiable once they are separable and arises from a contract or other legal rights (FRS for LMSE, 2019: pr.14.3). However, goodwill arising from business combination and other intangible held within the entity for sale purpose are out of the scope of this chapter (FRS for LMSE, 2019: pr.14.4). Furthermore, mineral rights as well as mineral reserves are not classified as intangible assets and are therefore out of the scope of this chapter as well (FRS for LMSE, 2019: pr.14.5).

In the process of initial recognition of intangible assets, the acquisition cost including the purchasing price and any other directly attributable cost are used as a measurement basis (FRS for LMSE, 2019: pr.14.8). In the same line, measurement in subsequent years after the initial recognition are made at cost minus accumulated depreciation and impairment (FRS for LMSE, 2019: pr.14.21). Also, for intangible assets purchased with less than one-year maturity, the paid or expected to be paid cash is the measurement basis with no maturity distinction however for purchased assets with a more than one-year maturity the cash price is the measurement bae with a maturity distinction. Borrowing cost related to acquisition of intangible lasting less than one year are recognized in profit or loss while those lasting more than one year are included in the cost of the asset until the time it gets ready for sale (FRS for LMSE, 2019: pr.14.9).

The FRS for LME distinguishes expenditures on research from expenditures on development. Expenditures on the research phase are recognized as expenses and included in profit or loss while expenditures on the development phase are recognized as intangible assets under the fulfillment of some specific conditions (FRS for LMSE, 2019: pr.14.17). However, in the case where the distinction between the research phase and the development phase is not possible, the expenditures should be recognized as if it were incurred in the research phase (FRS for LMSE, 2019: pr.14.19).

Intangible assets which have a limited useful life as for other assets are subject to amortization over the period of their useful life (FRS for LMSE, 2019: pr.14.22-14.24). Furthermore, for those with indefinite useful life, the entity should depreciate it within a period between 5 (minimum) to 10 (maximum) years (FRS for LMSE, 2019: pr.14.33). As for depreciation methods, multiples ones are allowed as for the case of other assets. Also, annual amortization expenses are recognized in Profit and Loss Statement (FRS for LMSE, 2019: pr.14.30).

Finally, intangible assets are put off the financial statements of an entity once future economic benefits are no longer expected from its use or disposal. Also, gains or losses form derecognition are recognized as profit or loss.

2.4.15. Chapter 15: Leases

A lease is an agreement between a lessor and a lessee where one transfer to the other the right to use an asset for a given period in which it receives a series of payments (FRS for LMSE, 2019: pr.15.2). This chapter discuss accounting principles related to transactions around leases but also for accounting recognition and measurement as well (FRS for LMSE, 2019: pr.15.1). However, leases related to natural resources' licensing agreements, use or exploration along with motion picture films, video recordings, plays, manuscripts, patents and copyrights and other operating leases are excluded from the scope of this chapter (FRS for LMSE, 2019: pr.15.4).

Lease classification depends on the extent of the risks-rewards for the lessor and the lessee (FRS for LMSE, 2019: pr.15.6). Leases where all risks and rewards are transferred to the owner are classified as financial lease whereas, leases without the transfer of risks and rewards are classified as operating lease (FRS for LMSE, 2019: pr.15.8). Furthermore, risks and rewards transfer related to finance leases are acknowledged once one or more or conditions such as: the transfer of the asset to the lessee by the end of the lease term, the lessee has the option to purchase the asset at a price expected to be substantially lower than the fair value at the time the option becomes exercisable, 80% of the economic life of the asset is included in the term lease, at least %90 of the fair value of the leased asset is covered by the present value of the minimum lease payments (FRS for LMSE, 2019: pr.15.10). Other situational indicators may also be considered for determining the nature of a financial lease (FRS for LMSE, 2019: pr.15.11).

Regarding the initial and subsequent recognition measurement, financial leases are recognized following the involved parties. For the lessee, an asset is recognized in the Statement of Financial Position, but liabilities arising from the contract at amounts equal to the fair value of the leased property or, in case if lower, the present value of the minimum lease payments are also recognized (FRS for LMSE, 2019: pr. 15.13-15.14). Also, any direct cost related to the asset at the initial recognition should be added to the amount recognized as an asset by the lessee (FRS for LMSE, 2019: pr.15.16). For operating leases, payments are recognized in the Profit and Loss Statement as expenses in profit or loss over the lease term following a straight-line basis (FRS for LMSE, 2019: pr.15.19). For the lessor, a receivable at an amount equal total fair value of the asset and the initial direct costs should be recognized (FRS for LMSE, 2019: pr.15.11). Furthermore, received lease payments should be reconginzed in two different parts between the finance income and the principal repayment after initial recognition and finance incomes are recognized on a straight-line basis that reflects a constant periodic rate of interest (FRS for LMSE, 2019: pr.15.21). As for operating leases, a lessor recognizes lease payments in the Profit and Loss Payment as profit or loss over the lease term and following a straight-line basis as well (FRS for LMSE, 2019: pr.15.30).

2.4.16. Chapter 16: Government Grants

Throughout this chapter, accounting principles related to government grants and assistances by non-government agencies have been discussed. Government grants are defined in this chapter as assistance in the form of transfers of resources given by a government to an entity and in return call for a compliance with certain conditions related to entity’s operating activities (FRS for LMSE, 2019: pr.16.2). On one hand, government granted or forgiven loans when pre-determined conditions are met are classified as government incentives and so is government granted loans at below-market rate of interest (FRS for LMSE, 2019: pr.16.5). On the other hand, are excluded from the scope of this chapter, government assistance with no reasonable value, transactions that cannot be differentiated from the normal trading ones and, government assistance associated to the determination of taxes (FRS for LMSE, 2019: pr.16.4).

Recognition of government grants depends on whether there is future condition that should be met or not by entity. And, whether those conditions have been fulfilled or not. For grant with no future condition to be met or if conditions have already been met, the entity should recognize them in profit or loss. For grant with specific future conditions, it is only when those conditions are fulfilled that the entity must recognize them as an income. And, in the meanwhile those grants are recognized as "*Deferred incomes*" in the Statement of Financial Position (FRS for LMSE, 2019: pr.16.7).

Finally, received grants should be measured at the fair value of the assets or receivable (FRS for LMSE, 2019: pr.16.8).

2.4.17. Chapter 17: Borrowing Costs

Borrowing costs are defined as both interest and other cost resulting from borrowings and the recognition of such costs are discusses in this chapter (FRS for LMSE, 2019: pr.17.1). Borrowing cost for inventories, property, plants and equipment, investment property and intangible asset with a more than one-year duration to get them ready for use or for sale, should be included in the cost of the asset up to the date they are ready for sale or for usage. Furthermore, all other borrowing costs are recognized in profit or loss in the period they are incurred (FRS for LMSE, 2019: pr.17.2).

2.4.18. Chapter 18: Impairment of Assets

In this chapter, accounting principle related to impairment test for assets and recognition in the financial statements are established. Inventories, biological assets are measured at their fair value, financial assets, investment property measured at the fair value and deferred tax assets are excluded from the principles discussed in this chapter (FRS for LMSE, 2019: pr.18.2).

There is an impairment loss once the recoverable amount of an asset is less than the carrying amount of the same asset. The recoverable amount is defined as the highest value of an asset between its fair value less costs to sell and its value in use (FRS for LMSE, 2019: pr.18.3). The recoverable amount of an asset is determined independently for each asset and in case that it is not possible, the recoverable amount for the cash unit (assets' group small enough to be identifiable and generate cash flows which are largely independent from others) that the asset belongs to is determined (FRS for LMSE, 2019: pr.18.7). On the other hand, the fair value less cost to sell represent the amount that is obtained from the sale of an asset in an arm's length transaction between parties at a market price within an active market and from which selling costs are deducted (FRS for LMSE, 2019: pr.18.12). Furthermore, the value in use of an asset is defined as the present value of the future cash flows expected from this asset (FRS for LMSE, 2019: pr.18.15), and the calculation of the asset value in use involves the expected future cash flows and the possible variation of their amount, the time value of money, the price of uncertainty related to the asset and other factors (FRS for LMSE, 2019: pr.18.16).

Impairment assessment is required at the end of each reporting period and in case there is any indicator that points out any potential impairment, the recoverable amount of an asset should be estimated (FRS for LMSE, 2019: pr.18.4). Impairment assessment should be carried out once at least the following indications are fulfilled: the market value of the asset has significantly declined during the period, important change in environmental factors that have adverse effect on the entity and its assets during the period, increase in the market interest rate that may have an important effect on the discount rate used for determining the value of assets, the fair value of the whole entity is less than the carrying amount of the net assets, physical damage or obsolescence of an asset is obvious with evidence, changes during the period or expected to take place in the future that may lead to assets being idle, discontinuation or restructuration of operations, internal evidence showing that an asset performance will be worse than expected (FRS for LMSE, 2019: pr.18.5). Goodwill is excluded from assets that are subjects to test for impairment purpose (FRS for LMSE, 2019: pr.18.23).

As for impairment recognition, losses for assets that are measured at cost are recognized in profit or loss while impairment losses from property plant and equipment which are measured at their revalued amount are recognized as revaluation decrease in the related item in the Statement of Financial Position (FRS for LMSE, 2019: pr.18.27). This also applies to cases of a cash generating unit which will therefore be allocated on proportion basis (FRS for LMSE, 2019: pr.18.28). It worth mentioning therefore that subsequently to the recognition of an impairment loss, the future depreciation charges of that assets should be revised to the new amount (FRS for LMSE, 2019: pr.18.31).

Finally, as explicitly explained in FRS for LME, once an impairment loss is no longer valid or has decreased at the end reporting period, the loss should be reversed either partially or in total (FRS for LMSE, 2019: pr.18.32).

2.4.19. Chapter 19: Provisions, Contingencies Liabilities and Contingencies Assets

The provisions, contingent liabilities and contingencies assets chapter discuss principles related to accounting treatment of those subject. However, while the chapter applies to almost all types of provisions (FRS for LMSE, 2019: pr.19.2) which should be recognized as a liability in the Statement of Financial Position with its amount as an expense (FRS for LMSE, 2019: pr.19.6), contingent liabilities on the other hand are not recognized in the Statement of Financial Position (FRS for LMSE, 2019: pr.19.20), and neither are the contingent assets (FRS for LMSE, 2019: pr.19.21). It also worth mentioning that onerous contracts, which are contracts where an entity's total costs obligations to be met under a given agreement surpass the economic benefit from it, are also covered by the principles discussed in this chapter (FRS for LMSE, 2019: pr.19.3).

Provisions are defined as liabilities of "*uncertain timing or amount*" (FRS for LMSE, 2019: pr.19.4). In other word, a provision is a liability that may require an entity to experience an expense outflow to settle a given contingency. Provisions are recognized under the FRS for LME, first once it arises at the reporting period an obligation for an entity resulting from previous event. Second, the probability for the entity to be required to transfer economic benefit and finally the obligation amount is reliably measured (FRS for LMSE, 2019: pr.19.5). Furthermore, provisions are obligations from past event regardless of an entity's future actions (FRS for LMSE, 2019: pr.19.8). This explains its unavoidable aspect and the reason to recognize the provision. Also, after each reporting period, provisions are meant to be revised according to the new available information and therefore adjust the new amount to reflect the current situation and recognition in profit or loss should be done (FRS for LMSE, 2019: pr.19.15).

Finally, as for provision reimbursements, they are recognized as separate asset if reimbursed by another party and that the reimbursement is quite certain and should not be more than the provision. Also, reimbursement related to receivables is included in the Statement of Financial Position and should not be offset by the provision previously recognized (FRS for LMSE, 2019: pr.19.16). As for employee indemnities, they are adjusted at the end of each reporting period and necessary accounting processing done accordingly (FRS for LMSE, 2019: pr.19.17).

2.4.20. Chapter 20: Foreign Currency Translation

In this chapter, accounting principles related to the accounting processing of an entity's foreign currency transactions under the FRS for LME both for individual and consolidated account are discussed. A foreign currency is the currency different from the ordinary currency (Functional currency) that an entity uses to generate and spend its cash (FRS for LMSE, 2019: pr.20.7).

Under the TFRS for LME, the functional currency is not necessarily the local currency (The Turkish Lira), (FRS for LMSE, 2019: pr.20.2). Therefore, the definition of a functional currency depends only on specific factors such as: the influence of the currency on sales prices of goods and services, the influence of the currency on labor, raw material, and other costs, we also have the main currency used on the receipts of the entity's operating activities and finally the currency for financing activities (FRS for LMSE, 2019: pr. 20.3-20.4).

As for accounting recognition of transactions in a foreign currency, the amount should be translated into the entity's functional currency at the spot rate on the transaction day (FRS for LMSE, 2019: pr.20.8). However, other exchange rates such as the average exchange rate for a week or month can be used as well for the translation unless the rate experience a significant fluctuation (FRS for LMSE, 2019: pr.20.9). Also, at the end of each reporting period, the measurement of items in the Statement of Financial Position, depends on whether they are monetary or non-monetary items (FRS for LMSE, 2019: pr.20.10).

For monetary items in foreign currencies, they are translated using the spot rate at the end of the reporting period and gains or losses resulting from such operations should be recognized in the Statement of Profit and Loss for the period as "*Other Operating Income*", "*Other Operating Expenses*" or "*Foreign Exchange Gain*" or "*Foreign Exchange Loss*" (FRS for LMSE, 2019: pr.20.14). On the other hand, for non-monetary items, the translation to the functional currency is done at the exchange rate of the transaction day for those measured at cost. If they are measured following the fair value in foreign currency, the spot exchange rate should be used (FRS for LMSE, 2019: pr.20.15). Also, gains or losses from non-monetary items translation into a functional currency are recognized in the Statement of Profit or Loss except for property, plant and equipment measured at the revalued amount which are recognized in the "*Revaluation Reserve*" (FRS for LMSE, 2019: pr.20.17).

The FRS for LME allows entities to present their financial statements in a currency other than their functional currency. In such cases, except if the functional currency is a currency of a hyperinflationary economy, the spot exchange rate at the reporting date should be used for assets and liabilities. For incomes, expenses and equity items, the exchange rates on the transition day or any exchange rate close to that one can be used. Finally, differences resulting from such operations are recognized as "Exchange Differences on Translation" (FRS for LMSE, 2019: pr.20.20). Once an entity has a functional currency which is a currency of a hyperinflationary economy, presenting its financial statements in another currency requires inflation adjustment (FRS for LMSE, 2019: pr.20.22). Finally, the inflation adjustment is dropped whenever the economy is no longer hyperinflationary (FRS for LMSE, 2019: pr.20.23).

In the case of consolidated entity, once the parent entity and its subsidiaries, joint venture and associate with different functional currencies, currency translation should be done by the parent entity as for individual entities presenting their financial statement other than their functional currencies. However, the parent entity also needs some extra procedures to complete the translation (FRS for LMSE, 2019: pr.20.26).

2.4.21. Chapter 21: Business Combinations

This chapter discusses accounting principles related to accounting operations for the measurement and recognition of assets, liabilities and other non-controlling interest resulting from business combination (FRS for LMSE, 2019: pr.21.21). Business combination is defined as the combination of separate businesses or entities in order to constitute a single reporting entity (FRS for LMSE, 2019: pr.21.2). For a transaction to be labeled as a business combination transaction, assets and liabilities arising from such operations should be a business (FRS for LMSE, 2019: pr.21.7). Operations, such as joint venture creation that do not meet the definition of business combination and subsidiary acquisition of entities not subject to the preparation of consolidated financial statements, are all exclude for the principle in this chapter (FRS for LMSE, 2019: pr.21.5). Furthermore, entities other than large one is also out of the scope of the principles established in this chapter related to business combination unless they prepare consolidated financial statements for prudence. Such entities only apply principles related to the section where no relationship arises between the parent and subsidiary (FRS for LMSE, 2019: pr.21.6).

The process of accounting recognition for business combination requires following subsequent steps of the acquirer identification, determination of the acquisition date, determining the business combination cost, measurement and recognition of assets acquired, liabilities assumed and any noncontrolling interest and also measure and recognize the goodwill or negative goodwill that arise from the operation (FRS for LMSE, 2019: pr.21.10). The guidance for the acquirer identification is defined following provisions in the chapter on Consolidated Financial Statement. As for the cost of the business combination under the FRS for LME, it is the sum of the fair value of transferred consideration and the direct cost incurred for the combination (FRS for LMSE, 2019: pr. 21.13-21.14).

As for the goodwill arising from business combination, it should be recognized as an asset for the acquirer (FRS for LMSE, 2019: pr.21.26). The calculation of goodwill is done by deducing form the initial recognition amount in subsequent period, the accumulated amortization (FRS for LMSE, 2019: pr.21.27). Additionally, in cases where a negative goodwill arises form a business combination operation, a gain is recognized on the acquisition date as "Other Income" in the Statement of Profit and Loss (FRS for LMSE, 2019: pr.21.29).

Finally, accounting process related to business combination should be completed with no delay as of the acquisition date (FRS for LMSE, 2019: pr.21.29). However, in case where this is not possible, provisional amount should be recognized for non-complete accounting operations and then adjusted retrospectively no later than the following twelve months (FRS for LMSE, 2019: pr. 21.30-21.32). Also, for business combinations under common control, the goodwill is not included in the financial statements (FRS for LMSE, 2019: pr.21.35).

2.4.22. Chapter 22: Consolidated Financial Statements

In this chapter, accounting principles related to subsidiaries and the preparation of consolidated financial statements are discussed. Subsidiaries are entities under the control of a parent entity which may result to the rise of a control power for the former one. The control power is related to the ability for a parent entity to govern and the financial as well as the operating policies of an entity (FRS for LMSE, 2019: pr.22.3). The control power arises once an investor owns over half of the voting right of an entity except if the contrary is clearly specified (FRS for LMSE, 2019: pr.22.4). The control power can also arise with an investor owning less or equal of the half of the voting rights. This is however subject to some conditions such as: owning over a half of the voting rights from an agreement with other investor; the power of governing financial and operating policies through provisions from the statute, an agreement or association articles; power to appoint or remove an entities majority of governing bodies; having the majority of governing body and executive appointed for a current period until the preparation of consolidated financial statements using voting rights (FRS for LMSE, 2019: pr.22.4). Also, elements such as exercisable options or convertible financial instruments can as well be a source of control (FRS for LMSE, 2019: pr.22.7).

Under the FRS for LME, accounting recognition related to investment in subsidiaries depends on whether the entity is a large or medium. Medium entities although eligible, are not required to prepare consolidated financial statements (FRS for LMSE, 2019:

pr.22.10). Thus, for such entities, owning directly or indirectly an entity which is a PIE, except some cases, induce being subject to all requirement related to preparing consolidated financial statements (FRS for LMSE, 2019: pr.22.11). Furthermore, for entities not under the obligation of preparing consolidated financial statements, they should recognize their investments in subsidiaries following either the cost or equity method (FRS for LMSE, 2019: pr.22.12).

As regard of large entities, they must consolidate all subsidiaries using the full consolidation method and present consolidated financial statements for each reporting period (FRS for LMSE, 2019: pr.22.14). In cases where the parent entity is another subsidiary of an ultimate parent entity, presentation of consolidated financial statements is not required if: the ultimate parent entity in Turkey publicly presented consolidated financial statement using the TFRS (IAS/IFRS equivalent in Turkey) or the ultimate parent entity has its operations in Turkey (FRS for LMSE, 2019: pr.22.16). Also, when preparing consolidated financial statements, a parent entity should include all its subsidiaries except when: the subsidiary is not significant; information related to consolidation is not obtainable without undue cost, effort, or delay; serious restrictions preventing the exercise of the ownership rights exist; the subsidiary is held for disposal within a year (FRS for LMSE, 2019: pr.22.18).

Finally, in cases where there is a loss of control by a change in interest or without a change in interest, an entity should perform accounting adjustments related for such operations. These operations will include: a derecognition of assets and liabilities related to the subsidiary and, a derecognition of non-controlling interest, a recognition of the fair value of received considerations and any other interest retained at its fair value etc. (FRS for LMSE, 2019: pr.22.32).

2.4.23. Chapter 23: Taxes on Income

The Taxes on Income chapter establishes principles related to accounting processing of taxes on income (FRS for LMSE, 2019: pr.23.1). Principles discussed in this chapter covers: all local and foreign taxes computed on taxable profit. It also covers taxes to be paid which arise from profit shares on investment in equity instruments, interest income royalty income and similar income (FRS for LMSE, 2019: pr.23.5). However, taxes other than those mentioned are considered out of the scope of this chapter (FRS for LMSE, 2019: pr.23.6). Taxes recognized in the financial statements of an entity comprise current and deferred taxes (FRS for LMSE, 2019: pr.23.2). For entities (large) required to present consolidated and separate financial statements, they must present the deferred tax amounts. Other entities are exempted from this requirement (FRS for LMSE, 2019: pr.23.3).

Current tax relates to the tax payable over profit for the current period. The calculation of current tax follows the tax law and the applicable tax rates (FRS for LMSE, 2019: pr.23.9). Once a current tax is not paid, the unpaid amount is recognized in the Statement of Financial Position as "*Taxes and Similar Liabilities Payable*" and for excess tax paid, they are recognized as "*Taxes and Other Expenses Paid in Advance*" (FRS for LMSE, 2019: pr.23.8). Current tax should also be recognized in the Statement of Profit or Loss as "*Tax Expense*" (FRS for LMSE, 2019: pr.23.11).

As for deferred taxes, they are either payable or recoverable in the future (FRS for LMSE, 2019: pr.23.12). Such taxes arise as result of the difference between the recognized carrying amount both assets and liabilities and their tax base but also the unused accumulated loss and tax credits (FRS for LMSE, 2019: pr.23.13). In deferred taxes, temporary differences which refer to the difference between the carrying amount and the tax base of asset and liability in the financial statement, should be considered. Tax differences include taxable temporary differences and deductible temporarily differences (FRS for LMSE, 2019: pr.23.18). For taxable temporary differences, a deferred tax liability must be recognized except for cases of initial recognition of goodwill as well as for assets and liabilities not included in business combinations which has neither effect on the accounting profit nor on the taxable profit (FRS for LMSE, 2019: pr.23.21). Other temporary differences result from incomes and expenses included in profit or taxable profit in different periods (FRS for LMSE, 2019: pr.23.22).

As for deductible temporary differences, they can be deducted from taxable future profits leading to the reverse of the differences. However, the recognition of such deferred taxes should be done only if sufficient taxable profit will likely be available (FRS for LMSE, 2019: pr.23.25). A deferred tax asset is not recognized for accumulated tax losses and tax credits when it is not likely that enough amount of taxable profit will arise in the future to offset such losses and credits (FRS for LMSE, 2019: pr.23.28). Furthermore, at the end of each reporting period, deferred tax assets which have not been considered in past periods should be reassessed and recognized once it is likely that enough taxable profit may be available for the future to offset the deferred tax asset (FRS for LMSE, 2019: pr.23.31).

Deferred tax liabilities related to investments in subsidiaries, associates, and joint ventures should be recognized for all taxable temporary differences except for cases where the parent entity can control the timing of the reversal of such temporary differences and, also in cases where it is not likely that the temporary difference is likely to be reversed in a foreseeable future (FRS for LMSE, 2019: pr.23.33). For deductible temporary differences, a tax asset is recognized only if the temporary differences will be reversed in a foreseeable future and enough taxable profit will be available to offset the temporary difference (FRS for LMSE, 2019: pr.23.34).

Deferred tax assets or liabilities are measured following the tax law as well as the tax rates except for non-depreciable assets measured at the revalued amount and the deferred tax related to investment property measured at fair value, in some cases (FRS for LMSE, 2019: pr.23.35). However, deferred tax liabilities and assets are not discounted (FRS for LMSE, 2019: pr.23.37). Deferred tax asset is recognized in the Statement of Financial Position as "*Deferred Tax Asset*" in fixed assets as and in the other hand, deferred tax liability is recognized in the long-term liabilities as "*Deferred Tax Liability*" separately (FRS for LMSE, 2019: pr.23.38). Also, an offset of such assets and liabilities is only possible when there is a legally enforceable right and the intention is to make a payment over the amount offset (FRS for LMSE, 2019: pr.23.39). Any change in the tax expense or income is presented in the Statement of Profit or Loss as a "*Tax Expense*". For deferred tax recognized in equity, the amount should be recognized as a deduction in the item "*Revaluation Reserve*" in the equity in which the effects of transactions and events are recognized (FRS for LMSE, 2019: pr.23.40).

2.4.24. Chapter 24: Interim Financial Reporting

Interim financial statements are prepared for periods less than one year. This chapter discusses the financial information that should be presented in such statements and the measurement as well as the accounting recognition (FRS for LMSE, 2019: pr.24.1). The obligation related to preparing and presenting interim financial statements is specified following the local legislation not the standard (FRS for LMSE, 2019: pr.24.2).

Interim financial statements should include all information relevant for understanding an entity's financial position for the reported interim period. Such financial statements may require as much information as annual financial statements if the entity wish so but can also condense the disclose information following this chapter (FRS for LMSE, 2019: pr. 24.3-24.5). Condensed financial statements include at least titles and subtotals compared to the most recent financial statements, but also items or notes crucial to the understanding of the interim financial statements (FRS for LMSE, 2019: pr.24.7). Other information related to event and transactions significant enough such as reversal of impairment of inventories, acquisitions and disposal of properties, ligation settlements and so on, should also be disclosed for a better understanding of the interim financial statements by users (FRS for LMSE, 2019: pr.24.9).

As for periods for which interim financial statements should be prepared, we have (FRS for LMSE, 2019: pr.24.10).

- ✓ **Statement of Financial Position**: The position at the end of the interim period comparative to the end of the pervious financial period.
- ✓ **Statement of Profit and Loss**: The statement for the current interim period and the cumulative statement to date for the current financial period and, the respective comparative statements for the immediate previous financial year.
- ✓ **Statement of Cash Flows**: The statement should be cumulative to date for the financial year with a comparative statement for the same period of the previous year.
- ✓ **Statement of Changes in Equity**: The same requirement as for the Statement of Cash Flows should be applied.

Finally, in cases where there is a change in accounting policies, interim financial statements for the current reporting period and the comparative interim periods should be adjusted to the new change (FRS for LMSE, 2019: pr.24.16).

2.4.25. Chapter 25: Financial Reporting in Hyperinflationary Economies

In this chapter, accounting principles related to the preparation of financial statements for entities which have functional currency of a hyperinflationary economy, are discussed

(FRS for LMSE, 2019: pr.25.1). In hyperinflationary economies, an adjustment for inflation effect is required and entities should only present the adjusted financial statement.

For entities with the Turkish Lira as their functional currency, an adjustment of financial statements for inflation should be made once the Domestic Producer Prices General Index (DPPI) for the country (Turkey) is more than 100% for the three previous reporting periods (including the current period) and higher than 10% for the ongoing reporting period (FRS for LMSE, 2019: pr.25.2).

For entities using other currencies (different from the Turkish Lira) as their functional currency, they should as well assess whether the economy of which such currency belongs to is a hyperinflationary economy following indicators of the standard (FRS for LMSE, 2019: pr.25.4). Furthermore, such entities should also use the same price index related to the changes in the purchasing index for the economy of which their functional currency belongs to (FRS for LMSE, 2019: pr.25.6).

Also, comparative financial statement should also be adjusted to ensure clarity and comparability (FRS for LMSE, 2019: pr.25.21). In addition, preparation of consolidated financial statements is also subject to the adjustments for inflation (FRS for LMSE, 2019: pr.25.22).

Once an entity's functional currency is no longer subject to the description of a currency of a hyperinflationary economy, both for those using the Turkish Lira as their functional currency of for those which do not, adjustments related to this chapter are discontinued (FRS for LMSE, 2019: pr.25.25). Financial statements adjusted for inflation for the last reporting period will be the basis for the carrying amount for future financial statements (FRS for LMSE, 2019: pr.25.26).

Finally, for periods where the adjustments for financial statements have been made, disclosures related to the restatement of previous financial statements, the general price index that has been used, gains or losses on net monetary position, as well as other related information should be disclosed in the notes (FRS for LMSE, 2019: pr.25.27).

2.4.26. Chapter 26: Notes

Notes are additional information aimed to give a full understanding of an entity's financial statements users. This chapter discusses the general principles related to notes' presentation and disclosures that must be included (FRS for LMSE, 2019: pr.26.1). Also, disclosures in this chapter vary depending on both the size of the entity (Large or Medium) and the type of financial statements (individual or consolidated) (FRS for LMSE, 2019: pr.26.6).

The general principles for the presentation of Notes are that they should be additional information to those already presented in the four main financial statements. They also include disclosure further disclosure related to items in those statements and any other elements that has not been recognized for some reason (FRS for LMSE, 2019: pr.26.2). Notes should also be presented in a systematic manner and each item in the financial statements should be referenced properly (FRS for LMSE, 2019: pr.26.3). Also, the presentation order of notes should be as follow: general information, statement of compliance with the standards, summary of main accounting policies, additional disclosures related to items and other disclosures (FRS for LMSE, 2019: pr.26.4).

Disclosure to be presented in the Notes are divided into three main parts which are: disclosures for all entities, disclosures for large entities and finally, disclosures related to consolidated financial statements.

Disclosures common to all entities are mandatory regardless the size or the type of financial statements (FRS for LMSE, 2019: pr.26.7). Those disclosures range from general information on the entity to information related to hedge accounting if applicable to the entity.

As for additional disclosures specific to large entities, information about the entity's net sales revenue divided by ‘‘significant different categories of activities and geographical market’’ should be made. Also, detailed information related to transactions with related parties should be disclosed (FRS for LMSE, 2019: pr.26.8).

As for entities that are subject to the preparation of consolidated financial statements, both disclosures related to all entities and large entities should be fully met and therefore, regardless of whether the consolidating entity is a large or not (FRS for LMSE, 2019: pr.26.9). Other additional information such as: the shares proportion within subsidiaries, associates and joint ventures owned by other entities or individuals acting on behalf of such entities other than the parent entity itself and, the way of control obtention over each subsidiary as well as the why of not consolidating subsidiaries if any such case arises (FRS for LMSE, 2019: pr.26.10).

2.4.27. Chapter 27: Transitional Requirements

The transitional requirement chapter is applied to entities which present their financial statements for their first time ever following the FRS for LME (FRS for LMSE, 2019: pr.27.1). If for some reasons an entity has stopped applying the FRS for LME, it should apply once again the transition requirement when it resumes applying the standards. However, the entity might also choose the option of retrospective adjustments of the financial statements and therefore not apply the transition requirements discussed in this chapter (FRS for LMSE, 2019: pr.27.2). Furthermore, for entities doing their first transition to this standard, except those which had applied the TFRS in previous periods, they should only prepare an opening Statement of Financial Position. For such entities no other financial statements prepared under different standards from previous years is required to be presented as comparative financial statements (FRS for LMSE, 2019: pr.27.3).

In the opening Statement of Financial Position of entities adopting for the first time the FRS for LME, assets and liabilities are recognized only if the standard permits it. Also, all items should be classified given the new standards and measurements for assets and liabilities should be based on the standards as well (FRS for LMSE, 2019: pr.27.5). Adjustments differences arising from different accounting policies at the transition date are recognized in equity items within the "*Accumulated Profit/Loss*" (FRS for LMSE, 2019: pr.27.7). Furthermore, severance pays in the opening Statement of Financial Position for the reporting period should be presented in the "*Accumulated Profit/Loss*" as well. However, the recognized amount should not be over ten years period and any amount not recognized should be disclosed in the notes (FRS for LMSE, 2019: pr.27.8). In cases where adjustments are not possible on the transition date, the earliest period on which it is possible to make such adjustments should be chosen and items that have not been adjusted should be disclosed (FRS for LMSE, 2019: pr.27.12).

In addition, two types of exception related to the opening Statement of Financial Position are giving in this chapter. The first one is related to exemptions from not applying some requirements of the standards in a retrospective manner. The second one is related to exemptions allowing first adopters to not apply some requirements retrospectively (FRS for LMSE, 2019: pr.27.29). For the first category of exceptions, they include subject such as: derecognition of financial assets and financial liabilities, derecognition of financial assets and financial liabilities, derecognition of financial assets and financial liabilities, loans obtained from the government (FRS for LMSE, 2019: pr.27.10). For the second category of exceptions, subjects such as: business combinations with few exceptions regarding the goodwill which should be evaluated by deducting the subsidiary's cost from its share value, the application of the equity method for associates and joint ventures recognition with some other exception as well, the use of the fair value as a replacement cost, the use of the revaluation amount as replacement cost, the use of fair value determined as a result of a certain event as the replacement cost and finally the calculation of deferred tax (FRS for LMSE, 2019: pr.27.11).

Finally, disclosure related to the transition process should include information on the impact on the financial statements because of the adoption of the new accounting set. Such information includes among others, the changes in the accounting policies, the reconciliation between the equity amounts, the profit and loss etc. (FRS for LMSE, 2019: pr.27.14).

2.5. Similarities and Differences Between the IFRS/IAS and the FRS for LME

The Turkish standardization for large and medium entities is fundamentally rooted in the IAS/IFRS. The main goal of the standards setters was to craft a simplified set standard inspired from the IAS/IFRS and which would ensure a truthful, comparable, and relevant financial information presentation (Cavlak and Ataman, 2017: 156). In doing so, the 27 chapters of the FRS for LMSE share many common points with the IAS/IFRS. However, for those IAS/IFRS standards not included separately in the FRS for LMSE, some have been simplified and included in the existing chapters for the sake of simplification (Gücenme Gençoğlu, 2017: 3).

In this section, we will be highlighting the main differences and commonalities between the IAS/IFRS and FRS for LMSE.

2.5.1. Correspondence Tables Between the FRS for LME Chapters and the IAS/IFRS

Here bellow in Table 19, we have the FRS for LMSE chapters with the corresponding IAS/IFRS. In the following Table 20, we have all IAS/IFRS that have not been taking into account for the preparation of the FRS for LMSE.

Table 18: The FRS for LME Chapters and the Corresponding IAS/IFRS

Chapters of the FRS for LMSE	The IAS/IFRS Standards
Chapter 1: Conceptual Framework and Financial Statements	Conceptual Framework **IAS 1:** Presentation of Financial Statements
Chapter 2: Statement of Cash Flows	**IAS 7:** Statement of Cash Flows
Chapter 3: Accounting Policies, Estimates and Errors	**IAS 8:** Accounting Policies, Changes in Accounting Estimates and Errors
Chapter 4: Events After the End of the Reporting Period	**IAS 10:** Events after the Reporting Period
Chapter 5: Revenue	**IAS 18:** Revenue* **IAS 11:** Construction Contracts* **IFRS 15:** Revenue from Contracts with Customers**
Chapter 6: Inventories	**IAS 2:** Inventories
Chapter 7: Agricultural Activities	**IAS 41:** Agricultural Activities
Chapter 8: Exploration for and Evaluation of Mineral Resources	**IFRS 6:** Exploration for and Evaluation of Mineral Assets
Chapter 9: Financial Instruments and Equity	**IFRS 7:** Financial Instruments: Disclosures **IFRS 9**: Financial Instruments **IAS 32:** Financial Instruments: Presentation **IAS 39**: Financial Instruments: Recognition and Measurement
Chapter 10: Investments in Associates	**IAS 28:** Investments in Associates and Joint Ventures
Chapter 11: Investments in Joint-Ventures	**IFRS 11:** Joint Arrangements
Chapter 12: Property, Plant and Equipment	**IAS 16:** Property, Plant and Equipment
Chapter 13: Investment Property	**IAS 40:** Investment Property
Chapter 14: Intangible Assets	**IAS 38:** Intangible Assets
Chapter 15: Leases	**IAS 17:** Leases***
Chapter 16: Government Grants	**IAS 20:** Government Grants and Disclosure of Government Assistance
Chapter 17: Borrowing Costs	**IAS 23:** Borrowing Costs
Chapter 18: Impairment of Assets	**IAS 36:** Impairment of Assets
Chapter 19: Provisions, Contingencies Liabilities and Contingencies Assets	**IAS 37:** Provisions, Contingent Liabilities and Contingent Assets
Chapter 20: Foreign Currency Translation	**IAS 21:** The Effects of Changes in Foreign Exchange Rates
Chapter 21: Business Combinations	**IFRS 3:** Business Combinations
Chapter 22: Consolidated Financial Statements	**IFRS 10:** Consolidated Financial Statements

Chapter 23: Taxes on Income	**IAS 12** Income Taxes
Chapter 24: Interim Financial Reporting	**IAS 34:** Interim Financial Reporting
Chapter 25: Financial Reporting in Hyperinflationary Economies	**IAS 29:** Financial Reporting in Hyperinflationary Economies
Chapter 26: Notes	**IAS 1:** Presentation of Financial Statements
Chapter 27: Transitional Requirements	**IFRS 1:** First-time Adoption of International Financial Reporting Standards

Source: (Gücenme Gençoğlu, 2017: 3)
*These standards have ever since been replaced by the IFRS 15.
**This standard was implemented after the FRS for LME was issued and for a simplification purpose, it has not been considered.
***This standard was replaced by the IFRS 16 *Leases* as of 1 January 2019.

Table 19: IAS/IFRS Not Included in the FRS for LMSE

IFRS 2: Share-based Payment
IFRS 4: Insurance Contracts
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
IFRS 8: Operating Segments
IFRS 12: Disclosure of Interests in Other Entities
IFRS 13: Fair Value Measurement
IFRS 14: Regulatory Deferral Accounts
IFRS 15: Revenue from Contracts with Customers
IAS 19: Employee Benefits
IAS 24: Related Party Disclosures
IAS 26: Accounting and Reporting by Retirement Benefit Plans
IAS 27: Separate Financial Statements
IAS 33: Earnings per Share

Source: (Gücenme Gençoğlu, 2017: 4)

2.5.2. Chapter Basis Assessment of Differences and Similarities Between the FRS for LME and the Corresponding IAS/IFRS

Following the correspondence table 19 with the FRS for LMSE chapters and the IAS/IFRS, we will discuss here bellow on a chapter basis the main different points as well as the main similarities between the two sets of standards. The FRS for LMSE despite being a simplified set of standards shares a lot of commonalities with the IAS/IFRS even though some points remain substantially different.

- **Chapter 1: Conceptual Framework and Financial Statements:**

The FRS for LMSE requires the same number of financial statements to be prepared by any entity as the in the TMS 1, which include: The Statement of Financial Position, the Statement of Profit and Loss, the Statement of Change in Equities, the Statement of Cash Flows and the Notes (Şen and Özbirecikli, 2018: 465). Also, general principles for financial reporting such as: going concern, accrual basis, offsetting etc., both in the FRS for LMSE and the IAS/IFRS are similar except for the prudence principle (Cavlak and Ataman, 2017: 159).

As for the differences, in the FRS for LMSE assets held for sale are not included in the Statement of Financial Position and there is no distinction between discontinued and continued operations in the Statement of Profit and Loss. The statement of comprehensive income has also been removed from the FRS for LMSE (Cavlak and Ataman, 2017: 159). Furthermore, the Statements of Profit and Loss in prepared on the function basis under the FRS for LMSE, while under the IAS/IFRS, the same statement is presented following both the functional basis and the expense category basis (Şen and Özbirecikli, 2018: 465).

- **Chapter 2: Statement of Cash Flows**

The Statement of Cash Flows preparation and presentation under the FRS for LMSE follows the same classification rules of as of the those under the IAS 7 *Statement of Cash Flows* (Özerhan and Sultanoğlu, 2018: 264). The only difference here is that business activities under the IAS 7 is labeled as operating activities under the FRS for LMSE (Cavlak and Ataman, 2017: 159).

- **Chapter 3: Accounting Policies, Estimates and Errors**

The accounting treatment for accounting policies, estimates and errors under the chapter 3 of the FRS for LMSE are in line with the treatments procedure under the IAS 7 *Accounting Policies, Changes in Accounting Estimates and Errors* (Cavlak and Ataman, 2017: 159). Therefore, changes in accounting policies should be implemented retrospectively while changes in estimates and errors should be applied for the ongoing reporting period and prospectively if necessary (FRS for LMSE, 2019: pr.3.8-3.27).

- **Chapter 4: Events After the End of the Reporting Period**

Principles in this chapter are conform with those discussed in the IAS 10 *Events after the Reporting Period* (Şen and Özbirecikli, 2018: 466). This includes events that occurs after the reporting period which might necessitate either a correction of the financial statements or a disclosure in the notes.

- **Chapter 5: Revenue**

The revenue chapter in the FRS for LMSE was prepared based on the IAS 18 *Revenue* and IAS 11 *Construction Contracts* and therefore is conform to those two standards (Cavlak and Ataman, 2017: 159). The main differences here are that in the IAS 18, maturity distinction should be done regardless the length of the period while in the FRS for LMSE, maturity distinction is only done once the revenue will last over more than a year (Cavlak and Ataman, 2017: 159). Furthermore, the five steps for revenue recognition in the IFRS 15 are not included in the FRS for LMSE (Öztürk et al., 2018a: 442).

- **Chapter 6: Inventories**

Under both the FRS for LMSE and the IAS 2 *Inventories*, inventories are valued at the lower of cost and the net realizable value. Also, these two sets share similarities on inventory impairment (Şen and Özbirecikli, 2018: 467). However, these standards differ on points such as: maturity distinction and measurement of inventories. Under the chapter 6 of the FRS for LMSE, maturity differences arise only for inventories purchased over more than a year while under the IAS 2 maturity differences should be recognized regardless of the length of the period (Öztürk et al., 2018a: 442). On the other hand, under the FRS for LMSE besides the normal cost method valuation of inventories, the full cost method and other valuation method are also used (Cavlak and Ataman, 2017: 160). Another difference between the two sets is related to the borrowing costs with regard of inventories. Under the FRS for LMSE, such costs are recognized in profit or loss of the period in which they occur. With an exception only for inventories that require a timeline production over more than a year and for those inventories, the borrowing costs will be part of the inventory's cost until it is ready for use. This is only true for qualifying assets under the IAS 2 (Cavlak and Ataman, 2017: 160).

- **Chapter 7: Agricultural Activities**

This chapter is fully compatible to the IAS 41 *Agricultural Activities* considering their purpose and scope. Also, the two sets are in line regarding regulations related to presentation of biological asset and measurement of agricultural product (Cavlak and Ataman, 2017: 160). On the other hand, as a difference, we have the use of both the cost method and the fair value measurement under the FRS for LMSE for measurement while only the fair value is accepted under the IAS 41 (Karahan, 2019: 66).

- **Chapter 8: Exploration for and Evaluation of Mineral Resources**

This chapter is compatible with the IFRS 6: *Exploration for and Evaluation of Mineral Assets* on subjects such as: first recognition which should be at cost, classification of exploration and evaluation as tangible and intangible assets. The two standards both include also subject to the fair value (İbrahimoğlu, 2020: 51). The only main difference between the two sets is that for later measurements, under the FRS for LMSE it should be done at the cost value while such operations under the IFRS 6 are carried out at both the cost value and the revaluation method (Cavlak and Ataman, 2017: 160).

- **Chapter 9: Financial Instruments and Equity**

The 9th chapter of the FRS for LMSE was prepared following the IAS 32, IAS 39, IFRS 7 and IFRS 9 with a less complex approach (Cavlak and Ataman, 2017: 160). Under the FRS for LMSE, financial assets are classified in four (4) main categories (receivables and payables, debt instruments, investment in equity instruments and other financial instruments) and in a more accessible way. On the other hand, these classifications under the IFRS 9 are done based on their measurement methodology (instruments measured at cost, instruments with changes in their fair value included in other comprehensible incomes and instruments with changes in their fair value included in profit and loss) (Karahan, 2019: 67).

Furthermore, while in the FRS for LMSE all differences are included in profit and loss, according to the IFRS 9, changes in the fair value measurement of financial assets are included in the other comprehensive income (Cavlak and Ataman, 2017: 160). Also, for payables the 9th chapter of the FRS for LMSE measures the impairment following the approach of ‘‘*realized credit loss*’’ instead of the ‘‘*expected credit loss’’* used in the IFRS 9. In addition, under the FRS for LMSE, receivables and payables are measured using both the nominal value (if less than one year) and the amortized cost (if more than one year), while on the other hand under the IFRS 9, only the amortized cost is used regardless the period (Öztürk et al., 2018b: 442).

Finally, under the FRS for LMSE, for traded securities, the valuation method is the fair value and for non-traded stock the cost method is the one to be used. On the contrary, under the IFRS 9, the fair value is the only method to be used (Karahan, 2019: 69).

- **Chapter 10: Investments in Associates**

This chapter is in line with the IAS 28 *Investments in Associates and Joint Ventures* on subjects such as: the significant influence for defining the control power and the use of the equity method as a measurement method for investment in associate when preparing consolidated financial statements (Cavlak and Ataman, 2017: 161).

However, under the FRS for LMSE, the fair value is not used when measuring investments in associates in individual financial statements as it is the case under the IAS 28 (Öztürk et al., 2018b: 442). Instead, associates are measured using the cost method or the equity method (FRS for LMSE, 2019: pr.10.9).

- **Chapter 11: Investments in Joint-Ventures**

This chapter is compatible with the IFRS 11 *Joint Arrangements* on joint-ventures control as both define it in the same way. Also, on the recognition of joint ventures in the consolidated financial statements, both the FRS for LMSE and the IFRS 11 use the equity method (Şen and Özbirecikli, 2018: 471).

However, in measuring joint ventures in the individual financial statements, the fair value is not used under the FRS for LMSE (Öztürk et al., 2018b: 442). But both standards use the cost method and the equity method.

- **Chapter 12: Property, Plant and Equipment**

The chapter 12 of the IAS 16 share numerous common points. First, the two are similar on both their objectives and their scope. Second, as of the initial recognition, both regulations use the cost method measurement and adding the revaluation method for subsequent measurements only. Also, under both regulations, any proof of impairment lead to a revaluation and a recognition in profit or loss. Furthermore, under both standards amortization methodologies and measurements are the same and in case of an asset becomes no longer in use, such asset should be derecognized and put off the entity's financial statements (Karahan, 2019: 71).

The main difference between the two standards on the other hands is related to maturity distinction. Under the FRS for LMSE contrary to the IAS 16, maturity distinctions are only done for tangible assets acquisitions over more a year. Therefore, for acquisitions with less than one-year period, all amounts should be included in the asset's cost (Karahan, 2019: 71). Also, under the FRS for LMSE, borrowing cost are included in the profit and loss of the period in which they occur and only included in the assets cost once the construction of such asset requires a longer period (more than a year). This is only true under the IAS 16 for special assets (Cavlak and Ataman, 2017: 161).

- **Chapter 13: Investment Property**

The 13th chapter of the FRS for LMSE is in line with the IAS 40 on subjects such as: measurements using the cost method for the first recognition and using both the cost method and the fair value for later measurements. The two are also compatible on presentation of such asset in the Statement of Financial Position (Cavlak and Ataman, 2017: 161).

- **Chapter 14: Intangible Assets**

Under both the 14th chapter of the FRS for LMSE and the IAS 38, the recognition for intangible assets is done following the cost method. Also, research and development are divided into two non-related parts in both standards (Şen and Özbirecikli, 2018: 473).

On differences, the fair value is not used for measurement in subsequent period under the FRS for LMSE while under the IAS 38 both the cost method and the fair value are used (Cavlak and Ataman, 2017: 162). Furthermore, under the FRS for LMSE, intangible assets with a limitless useful life should be amortized between 5 years minimum to 10 years maxim (including goodwill) while under the IAS 38 for such assets, at the end of each reporting period an assessment the useful should be done and an impairment test is carried out in the case of goodwill. However, no amortization for such assets is required under the IAS 38 (Mozeikçi and Şahinoğlu, 2018: 43).

- **Chapter 15: Leases**

The 15th chapter of the FRS for LMSE is broadly in line with the IAS 17 on classifications of operations related to lease, sale, and leaseback operations. However*, operating lease* in the IAS 17 is referred as traditional lease ‘‘*Geleneksel Kiralama’’* under the FRS for LMSE (Cavlak and Ataman, 2017: 162).

- **Chapter 16: Government Grants**

Both the FRS for LMSE and the IAS 20 share the same objectives and scope in terms of accounting processing of government grant, and both also use the fair value as a valuation method (Karahan, 2019: 74). However, the FRS for LMSE does not classify government grant as monetary or non-monetary as in the IAS 20 (Şen and Özbirecikli, 2018: 475). Furthermore, as a main difference, under the FRS for LMSE, grants are recognized in profit and loss within the period that they have been received while under the IAS 20, government grant can be recognized using both the income approach and the equity approach (Öztürk et al., 2018b: 442).

- **Chapter 17: Borrowing Costs**

The 17th chapter of the FRS for LMSE is in line with the IAS 23 on subject related to borrowing cost such as: maturity, interest, exchange rate difference and so on so forth (Cavlak and Ataman, 2017: 162). The two standards are also in line with each other regarding their scope and goals (Karahan, 2019: 74).

The main difference between the two standards is that under the FRS for LMSE maturity distinction is only calculated for assets that require more than a year of construction or production. And borrowing cost for such assets are included in the asset’s cost until they are ready for use. On the other hand, such scenario is only possible under the IAS 23 for assets specified as ‘‘*qualifying asset*’’ which classification is not included in the FRS for LMSE (Karahan, 2019: 74).

- **Chapter 18: Impairment of Assets**

The FRS for LMSE and the IAS 36 are both compatible regarding the assessment and measurement of impairment loss. Also, under both standards, the impairment loss should be recognized in profit and loss. However, in case of any previous value appreciation included in the entity's equity, the impairment loss should be deducted from the revaluation reserve (Şen and Özbirecikli, 2018: 476).

The main differences between the two standards remain in the accounting valuation of the *goodwill*. Under the FRS for LMSE, the *goodwill* is subject to amortization but not subject to an impairment test. On the other hand, under the IAS 36, the *goodwill* should not be amortized but is subject to impairment loss (Şen and Özbirecikli, 2018: 476).

- **Chapter 19: Provisions, Contingencies Liabilities and Contingencies Assets**

The 19th chapter of the FRS for LMSE is in line with the IAS 37 regarding the recognition measurement of provisions and the presentation of contingencies liabilities and contingencies assets (Cavlak and Ataman, 2017: 162).

The main differences between the two set of regulations are, putting aside the slight difference in the denomination of contingencies liabilities and contingencies assets from one to another, the measurement of the provision amount and the employee severance indemnity. Under the FRS for LMSE, the provision amount is measured using both the ''*best estimate of the expenditure required to settle the present obligation at the end of the reporting period*'' (FRS for LMSE, 2019: pr.19.9), and the present value and that amount (Öztürk et al., 2018b: 442). Also, under the FRS for LMSE, employee severance indemnity obligations arising from the current period should be estimated and included in the current period financial statements while under the IAS 37, the actuarial method is the one to be used (Şen and Özbirecikli, 2018: 477).

- **Chapter 20: Foreign Currency Translation**

The 20th chapter of the FRS for LMSE is in line with the IAS 21 regarding initial measurement at the spot rate of the operation date, the conversion of cash and non-cash items from foreign currencies and also, the conversion of financial statements (Cavlak and Ataman, 2017: 163). The only difference between the two standards is the difference in denomination used for some expressions (Şen and Özbirecikli, 2018: 477).

- **Chapter 21: Business Combinations**

Both the 21st chapter and the IFRS 3 are compatible with each other regarding their goal and scope. Also, both use the purchase price for the recognitions related to business combination (Karahan, 2019: 77).

The main differences between the two standards arise for operation related to goodwill. Under the FRS for LMSE, the goodwill is the difference arising from the combination cost of acquired assets and the book value or fair value of the related liabilities while under the IFRS 3, the goodwill is the difference between the combination cost of acquired assets and the fair value of the related liabilities (Şen and Özbirecikli, 2018: 479). In addition, under the FRS for LMSE, the goodwill is amortized over its useful lifetime when known and over a maximum of 10 years when unknown. However, under the IFRS 3, goodwill amortization is not allowed (Cavlak and Ataman, 2017: 163). Finally, the negative goodwill, which arises when the excess of the acquirer's share in the acquiree's net assets is higher than the cost of business combination, under the FRS for LMSE is not seen as such under the IFRS 3. Instead, such excess is recognized as business combination profit under the IFRS 3 (Şen and Özbirecikli, 2018: 479).

- **Chapter 22: Consolidated Financial Statements**

The commonalities between the chapter 22nd of the FRS for LMSE and the FRS 10 *Consolidated Financial Statements* are that in both standards, the control power define the subsidiary entity. Also, regulation related to consolidation activities and operation for non-controlling power participations are similar within both sets (Cavlak and Ataman, 2017: 163).

On the other hand, the main differences can be related to the recognition methods and the distinction between the large and medium entities under the FRS for LMSE. Therefore, under the FRS for LMSE, large entities are required to prepare consolidated financial statements while medium ones can choose whether to prepare such statements. However, under the IFRS 10, except for some rare cases, consolidated financial statements should be prepared (Şen and Özbirecikli, 2018: 480). Finally, under the FRS for LMSE, in individual financial statements, subsidiaries are measured following either the cost or equity method while under the IFRS 10, beside of those methods, the fair value can also be used (Cavlak and Ataman, 2017: 163).

- **Chapter 23: Taxes on Income**

This chapter shares similar provisions with the IAS 12 *Income Taxes* as for current and deferred taxes. Also, they are similar both on the scope and goals (Cavlak and Ataman, 2017: 163; Karahan, 2019: 79).

The main difference between the two standards is that under the FRS for LMSE, only large entities are required to present deferred taxes while under the IAS 12, regardless the size, deferred taxes must be evaluated and presented (Karahan, 2019: 79).

- **Chapter 24: Interim Financial Reporting**

This chapter shares the same regulations with the IAS 34 *Interim Financial Reporting* for preparing and presenting interim financial statements and both sets share the same scope and goals (Karahan, 2019: 80; Şen and Özbirecikli, 2018: 480). However, while interim financial statements are required under the IAS 34, such obligation is not included in the FRS for LMSE (Cavlak and Ataman, 2017: 163).

- **Chapter 25: Financial Reporting in Hyperinflationary Economies**

The 25th chapter and the IAS 29 *Financial Reporting in Hyperinflationary Economies* are in line with each other on regulations such as financial statements adjustment for inflation in hyperinflationary economies (Cavlak and Ataman, 2017: 163). However, under the FRS for LMSE, the local currency is specified as the Turkish Lira. Therefore, for entities using this currency as their functional currency, the inflation adjustment should be made following the Producer Price Index published by the Turkish Statistics Board. Under the IAS 29, there is no such specification related to currency (Karahan, 2019: 81).

- **Chapter 26: Notes**

Under the FRS for LMSE, notes related to all other chapters are discussed under a single chapter which differ from the IAS/IFRS where for each standard the related notes are discussed (Cavlak and Ataman, 2017: 164). Furthermore, under the 26th chapter, disclosures to be made by each entity are classified in different level. Therefore, we have disclosure for all entities, additional disclosures for large entities, and finally disclosures made by entities preparing consolidated financial statements (FRS for LMSE, 2019: pr. 26.7-26.10).

- **Chapter 27: Transitional Requirements**

Transition requirements chapter applies for entities adopting for the first time the FRS for LMSE. This chapter can be related to the IFRS 1 and both are similar on first time adoption and exemptions. However, under the IAS/IFRS, each new standard comes with its own transition requirements (Cavlak and Ataman, 2017: 164).

- **Annexes**

The standards setters for the FRS for LMSE have added examples of financial statements to be followed by accounting practitioners as a guidance. Under the IAS/IFRS, there is no such financial statement examples. However, in Turkey, the POA have prepared examples of financial statements for the translated IAS/IFRS (TFRS/TAS; in Turkey) to be followed by local entities (Cavlak and Ataman, 2017: 164).

In conclusion, we can see that despite being a simplification of the IAS/IFRS and sharing many common points with that set, the FRS for LMSE still have multiples differences. However, almost all differences are intended to lower the burden related to the preparation and presentation of financial statements. The FRS for LMSE aims for more a simplistic approach than the IAS/IFRS while at the same time ensure a truthful, useful and comparability in financial information. Also, entities subject to this set in Turkey can easily switch to the IAS/IFRS without heavy complications.

2.5.3. A Summary Table of Differences Between the IAS/IFRS and the FRS for LMSE

In this table below, a summary of the main converging and diverging points between the IAS/IFRS and the Turkish FRS for LMSE will be presented. This will help get a sight of the differences of the two sets and therefore ensure a good understanding of the accounting practices for each one.

Table 20: Summary of Differences Between the IAS/IFRS and the FRS for LMSE

	Items	FRS for LMSE	IAS/IFRS
FINANCIAL STATEMENTS	**Financial Statements**	❖ **Statement of Financial Position** Assets held for sale are not disclosed in the Statement of financial position. ❖ **Statement of Profit and Loss** Grouping of expenses and incomes from operating and other activities are made clear. There is no distinction between discontinued and continued activities. ❖ **Statement of Cash Flows** ❖ **Statement of Change in equity** ❖ **Accounting Policies and Notes**	Compatible with the FRS for LMSE Except for the mentioned differences
	Other Comprehensive Income	Is not presented	A table for other comprehensive income should be presented
	Statement of Profit and Loss	Function basis	Function or quality of expenses basis
	Statement of Cash Flows	Classification: Operating, Investment and Financial Activities	Compatible with the FRS for LMSE
	Notes	A fully dedicated chapter to the notes	Each accounting standard includes related disclosures for notes
ACCOUNTING POLICIES / ESTIMATES / ERRORS	**Change in Policies**	Backward Application	Compatible with the FRS for LMSE
	Change in Estimates	Forward-Looking Application	Compatible with the FRS for LMSE
	Errors	Backward Application	Compatible with the FRS for LMSE

REVENUE	**General Recognition Criteria**	Probability that economic benefit associated with the item will flow to the entity; Benefits can be measured with reliability;	IFRS 15: Revenue recognition follows the fulfillment of the performance obligation at once or over time. The FRS for LMSE is compatible with previous standards IAS 8 and IAS 11.
	Measurement	Expected or received price minus discounts	Transaction price (Fixed/Variable)
	Maturity Difference	Operations lasting for more than a year	All maturity distinctions should be made regardless of the duration.
	Service Delivery (Recognition)	A periodic recognition following the percentage of completion method.	The fulfillment of the performance obligation at once or over time.
	Construction Contract (Recognition)	A periodic recognition following the percentage of completion method.	Recognition over time as the performance obligation is fulfilled.
	Interest (Measurement)	Effective interest method.	Compatible with the FRS for LMSE
INVENTORIES	**Maturity Differences**	Only for purchases lasting for more than a year.	All maturity distinctions should be made.
	Borrowing Costs	Borrowing costs are recognized in profit or loss of the period in which they occur. For inventories that require a duration of production over more than a year, the borrowing cost should be included until they are ready for use.	Only qualifying assets incorporate the borrowing cost. Otherwise, such costs are reflected in profit or loss of the period in which they occur.
	Measurement at The End of Period	It is measured over the lower of cost value and net realizable values.	Compatible with the FRS for LMSE
	Determination of Inventory Cost	Full or normal cost method.	Normal cost method.
FINANCIAL INTRUMENTS AND EQUITIES	**Measurement of Financial Assets and Liabilities**	Those with a maturity of one year or less are measured at the nominal value. Those with a maturity of one year or more are measured at amortized cost.	Amortized cost and changes in the fair value reflected in the other comprehensive income or Changes in the fair value reflected in the profit or loss;
	Impairment Related to Financial Assets	If observable evidence of impairment, a provision for impairment is made.	Impairment is recognized according to the expected credit loss approach (TFRS 9)

	Recognition of Investment in Equities	For those traded on the stock exchange, measurement is done at the fair values (market value); For those not traded on the stock exchange, they are measured at the cost value.	Measurement is done at the fair value (TFRS 9).
	Measurement of Debt Securities Investments	Measured at the amortized value.	Following their holding objective and the cash flow characteristics, financial assets are classified according to the amortized cost, the fair value of assets to be reflected in the profit and loss, or the fair value of assets to be reflected in the other comprehensive income (TFRS 9).
	Measurement of Bank Loans and Issued Securities	Measured at the amortized value.	It is measured at the amortized cost or at the fair value in certain cases.
	Derivative Instruments	Measured at the Fair Value.	Compatible with the FRS for LMSE
INVESTMENT IN ASSOCIATE	**Definition of Investment in Associate**	Entities with significant influence that are not joint ventures or affiliates.	Compatible with the FRS for LMSE
	Measurement of Investment in Associate	Consolidated financial statements:Equity methodIndividual financial statements:Cost methodEquity method	**Consolidated financial Statements:** Compatible with the FRS for LMSE **Individual financial statements:** ▪ Cost method ▪ Equity method ▪ Fair value
INVESTMENTS IN JOINT VENTURES	**Definition of Joint Ventures**	According to the occurrence form: ▪ Jointly controlled activities ▪ Jointly controlled assets ▪ Jointly controlled businesses	Compatible with the FRS for LMSE

	Joint Control	It is the sharing of control over an economic activity on a contractual basis. Decisions on strategic activities require the unanimous consent of the parties (joint entrepreneurs) sharing control.	Compatible with the FRS for LMSE
	Recognition of Jointly Controlled Entities	**Consolidated financial statements:** ▪ Equity method **Individual financial statements:** ▪ Cost method ▪ Equity method	**Consolidated financial statements:** Compatible with the FRS for LMSE **Individual financial statements:** ▪ Cost method ▪ Equity method ▪ Fair value
TANGIBLE ASSETS	**First Recognition**	Cost Value	Compatible with the FRS for LMSE
	Subsequent Measurement	Cost amount or revalued amount found by deducting accumulated depreciation and accumulated impairment losses.	Compatible with the FRS for LMSE
	Maturity Distinction in Term Purchases	Tangible assets purchased with a maturity of more than a year are measured at the cash price by separating the term differences.	All term differences should be separated from the cost of assets.
	Amortization Application	It is required and pro rata depreciation is calculated.	Compatible with the FRS for LMSE
	Useful Life	The useful life is determined by the company based on realistic estimates.	Compatible with the FRS for LMSE
	Amount Subject to Amortization	It is found by deducting the residual value from the cost value or the revaluated amount of the fixed asset.	Compatible with the FRS for LMSE

	Borrowing Costs	Borrowing costs that are directly related to the acquisition of assets that normally take longer than one year to build/produce are included in the cost of the respective assets. Other borrowing costs are reflected in profit or loss of the period in which they occur.	**Qualifying Asset:** An asset that requires a long period of time to be ready for its intended use or sale. Borrowing costs of such assets are included in the cost of the respective asset.
INTANGIBLE ASSETS	**First Recognition**	Cost Value	Compatible with the FRS for LMSE
	Subsequent Measurement	It is measured over the cost found by deducting the accumulated amortization and impairment losses.	Cost or revaluation method.
	Research and Development Expenses	Expenses incurred during the research phase are reflected in profit or loss; Expenses incurred in the development phase are included in the cost of the asset.	Compatible with the FRS for LMSE
	Amortization (Limited Useful Life)	Proportion amortization is calculated according to the useful life determined by the business.	Compatible with the FRS for LMSE
	Amortization (Unlimited Useful Life)	Between a period of five (5) years minimum to ten (10) years maximum.	Such assets are not amortized, and a review of the useful life should be conducted at the end of each reporting period.
OPERATING LEASE	**Definition**	Leases where all risks and rewards arising from ownership of the asset are not transferred to the lessee	Compatible with the FRS for LMSE
	Recognition	Over the lease period, lease payments are recognized by the lessor as incomes on a linearly basis and as expenses by the lessee.	Compatible with the FRS for LMSE

FINANCIAL LEASE THE LESSEE	**First Measurement**	Assets are recognized at the lower of the fair value and the present value of lease payments.	Compatible with the FRS for LMSE
	Disclosure in the Statement of Financial Position	According to the nature of assets (tangible fixed assets, intangible assets, etc.)	Compatible with the FRS for LMSE
	Amortization	If there is no certainty regarding the transfer of ownership at the end of the lease period, the amortization is done over the shorter of the lease period and the useful life.	Compatible with the FRS for LMSE
	Subsequent Measurement	Lease payments are separated into debt principal payment and finance expense. The financing expense is distributed over periods with a fixed interest rate applied to the remaining debt amount.	Compatible with the FRS for LMSE
FINANCIAL LEASE THE LESSOR	**First Measurement**	The asset is derecognized. The "Fair Value" of the asset and the total initial direct costs are recorded as rent receivables. The difference between the fair value of the asset and the book value is reflected in profit or loss.	Compatible with the FRS for LMSE
	Subsequent Measurement	Lease payments received are separated into principal repayments and finance income.Finance income is distributed over periods with a fixed interest rate applied to the remaining receivable amount.	Compatible with the FRS for LMSE

BORROWIING COST	**Recognition**	Borrowing costs directly associated with the **acquisition of inventories, tangible assets, investment properties and intangible assets that normally take more than a year** to produce, build or create are included in the cost of the given asset.	Borrowing costs that can be directly attributed to the acquisition, construction or production of a qualifying asset are included in the cost of such asset.
		For such asset, costs keep being included up to the time the given asset is ready for sale or use.	Compatible with the FRS for LMSE
		Other borrowing costs are recognized as period expense.	Compatible with the FRS for LMSE
IMPAIREMENT 0F ASSETS	**Measurement**	The difference between book value of an asset and the recoverable amount is considered as impairment.	Compatible with the FRS for LMSE
	Goodwill	The goodwill is not assessed for impairment. However, it should be amortized over its useful life if reliably estimable. Otherwise, it is amortized over a 10-year period.	The goodwill is subject to impairment assessment but not subject to amortization.
	Recognition	Impairment loss on assets measured at cost is reflected in profit or loss. The value decreases in assets measured over the revalued amount is considered as a revaluation decrease and reflected in the fund.	Compatible with the FRS for LMSE
BUSINESS COMBINATIONS	**Definition**	It results from the control acquisition over a given business.	Compatible with the FRS for LMSE
	Calculation of Goodwill and Negative Goodwill.	The goodwill represents the exceeding share amount of the acquirer resulting from the difference between the cost of the business combination and the net assets recognized and measured following this standard. In the contrary case, we will have a negative goodwill.	The goodwill represents the difference between the cost of the business combination and the fair value of the assets and liabilities acquired.

	Amortization of The Goodwill	It is amortized over its useful life if reliably estimable, or over 10 years if not.	The goodwill is not amortized, but subject to impairment assessment.
CONSOLIDATED FINANCIAL STATEMENTS	**Preparation of Consolidated Financial Statements**	Large entities are required to prepare consolidated financial statements. This is optional for medium sized entities. Even if the parent is not a large entity, it should apply provisions specific to large entities and prepare consolidated financial statements if any subsidiary owned directly or indirectly is a Public Interest Entity.	Entities subject to the IFRS are required to prepare consolidated financial Statements.
	Subsidiary Criteria	The existence of control.	Compatible with the FRS for LMSE
	Recognition of Subsidiaries	**Consolidated financial statements:** ▪ Full consolidation **Individual financial statements:** ▪ Cost method ▪ Equity method	**Consolidated financial statements:** Compatible with the FRS for LMSE **Separate standard financial statements: (IAS 27)** ▪ Cost method ▪ Equity method ▪ Fair value
INCOME TAXES	**Differed Taxes**	The disclosure of differed taxes in consolidated and individual financial statements is mandatory for large entities. Entities that optionally chose to prepare consolidated financial statements are also required to disclose differed tax amounts. However, for their individual financial statements, this is not mandatory.	The disclosure of deferred taxes is mandatory for all entities subject to the IAS/IFRS.

Source :(Gedik, 2019)

In summary, the Turkish accounting system has evolved from a very continental based approach to a more Anglo-Saxon oriented accounting practice. Also, the FRS for LMSE was developed to answer a very specific need related to practical application of accounting standards for some category of entities specially the non-PIE ones. This FRS for LMSE aimed at making accounting more accessible for entities not under the obligation to comply with the IAS/IFRS, and therefore help lower the burden of complexity of international financial standards for large and medium entities. In addition, being inspired by the IAS/IFRS with many common points between them, and in line with the EU directives on accounting, the FRS for LMSE is an up to date set of accounting that will allow an accurate and truthful presentation of financial statements.

CHAPTER 3: ANALYSIS OF THE DIFFERENCES BETWEEN THE FRS FOR LMSE AND THE SYSCOHADA

In this chapter, there will be a look at the main differences and similarities between the SYSCOHADA and the FRS for LMSE. The main goal will be to analyze the extent of differences between the two accounting sets. This will help get a better understanding of each set and therefore make it easier for people doing business in these areas to read and understands each other's financial statements.

The chapter will be divided into two main parts. First, there will be an analysis on different topics of accounting following the perspective of each set. This will help us draw the differences on how both the SYSCOHADA and the FRS for LMSE process on each topic. Second, there will be a case study focusing on the most significant differences between the two accounting sets. This application will be a restatement of two main financial statements (the Balance Sheet and the Income Statement) presented following the SYSCOHADA into the Statement of Financial Position and the Statement of Profit and Loss respectively following the FRS for LMSE.

3.1. The Main Differences and Similarities Between the SYSCOHADA and the FRS for LMSE

The first major difference between the SYSCOHADA and the FRS for LMSE is related to the number of countries in which these sets are used. The SYSCOHADA is the main accounting regulation for 17 African countries while the FRS for LMSE is solely used in Turkey.

Furthermore, in the OHADA countries all entities are subject to the SYSCOHADA except for those under specific local regulations such as: banks. The SYSCOHADA has two levels of presenting financial statements depending on the size of an entity. The *Normal System (Système Normal)* used for any entity that does not meet the definition of a small entities. The *Minimal Treasury/Cash System (Sytème Minimal de trésorérie)* for small entities. On the contrary, the FRS for LMSE in Turkey only applies to two categories of entities: the medium and large entities. Small entities have their own set of accosting independently from the FRS for LMSE.

Also, the SYSCOHADA has a rule-based approach of accounting with extensive detailed information on several topics including the chart of accounts and how each account should be used. This led to a very dense document of about 1200 pages. The FRS for LMSE however follows a standard based approach and therefore given only the main directives as regard of accounting practices. The whole set is a document that is about only 200 pages and do not include the chart of accounts.

As regard to financial statements to be presented in each fiscal year, the two accounting sets differs slightly. The SYSCOHADA does not require the presentation of a Statement of Change in Equity for individual financial statements. And, for entities with more than 500 employees the SYSCOHADA requires to provide information on how the entity is considering both social and environmental consequences of its activity and also its social commitments in favor of sustainable development (AUDCIF & SYSCOHADA, 2017: 858). The FRS for LMSE does not have such requirements.

Here below, there be an analysis of the differences between the two accounting sets on topic-based view.

Conceptual Framework

The Conceptual Framework of the SYSCOHADA and the FRS for LMSE were all prepared following the Conceptual Framework of the IAS/IFRS. However, the SYSCOHADA seems more extensive in terms of information and is also adapted to the local realities.

Also, the two sets slightly differ on the naming and the number of financial statements that should be prepared. Under the SYSCOHADA, the Statement of Change in Equity is not part of the sets of individual financial statements to be presented for entities subject to the normal system. Furthermore, the Statement of Financial Position is referred as the Balance Sheet and the Statement of Profit or Loss is referred as the Income Statement (AUDCIF & SYSCOHADA, 2017: 109).

As regard of general financial reporting principles and characteristics of useful financial information, the two sets slightly differ on the way they classify and organize those principles.

In the SYSCOHADA accounting principles are classified as accounting postulates and conventions (AUDCIF & SYSCOHADA, 2017: 87).

Accounting postulates make possible to define the scope of the accounting model. These are principles accepted without demonstration but consistent with the objectives (AUDCIF & SYSCOHADA, 2017: 87). Here bellow we have the different postulates of the SYSCOHADA.

- ✓ The postulate of the entity
- ✓ The postulate of accrual or accrual accounting
- ✓ The postulate of the specialization of the exercises
- ✓ The postulate of the permanence of the methods
- ✓ The postulate of the preeminence of economic reality over legal appearance.

This last postulate has a limited application as regard of assets recognition in the lessee's balance sheet for goods used under a capital lease (lessee) and a finance lease receivable (lessor). Provisions are also limited to leasing, hire-purchase, or any other rental agreement with a purchase option which the lessee is reasonably certain to exercise (AUDCIF & SYSCOHADA, 2017: 93).

Furthermore, *accounting conventions* are intended to guide those in charge of preparing financial statements in their evaluation and presentation of different elements (AUDCIF & SYSCOHADA, 2017: 94).

Here bellow we have the different accounting conventions used under the SYSCOHADA.

- ✓ The historical cost convention
- ✓ The prudence convention
- ✓ The regularity and transparency convention
- ✓ The correspondence of the closing balance sheet - opening balance sheet convention
- ✓ The significant importance convention

Also, the SYSCOHADA qualitative characteristics of useful financial information is divided into essential and auxiliary characteristics (AUDCIF & SYSCOHADA, 2017: 99–102).

The essential characteristics: Relevance and faithful representation.

Auxiliary characteristics: Comparability, Verifiability, Timeliness, Understandability, Benefit-cost balance

In the FRS for LMSE, characteristics of useful financial information are relevance, faithful representation, understandability, comparability, and timeliness (FRS for LMSE, 2019: pr.1.7). As for general financial reporting principles they are: The Going Concern, the Accrual basis, the Prudence, the Materiality in the Presentation of Financial Statements, the Offsetting, the Frequency of reporting, the Comparative Information, the Consistency of Presentation (FRS for LMSE, 2019: pr.1.14.1.26).

Finally, as we can see here, the FRS for LMSE gives a simple approach in stating these principles while the SYSCOHADA seems more detailed. Also, some postulate under the SYSCOHADA such as the preeminence of economic reality over the legal appearance aimed to ensure the relevance of financial information, does not exist as such under the FRS for LMSE.

Revenue

In the SYSCOHADA, operations related to revenue are discussed in the conceptual framework while the FRS for LMSE has a chapter dedicated to it.

As regard of revenue recognition, under both sets, it is subsequent to the assumption of economic benefit inflow and the reliable measurement of that benefit (AUDCIF & SYSCOHADA, 2017: 130; FRS for LMSE, 2019: pr.5.5).

However, the two sets differ as regard of revenue recognition related to sales of goods. Under the SYSCOHADA, the revenue is recognized following the transfer of control over the good at the delivery (AUDCIF & SYSCOHADA, 2017: 131). Under the FRS for LMSE, beside to the handover of control of sold goods, four (4) other conditions should be met. Those conditions are: ''*The transfer of the significant risks and rewards of ownership to the buyer*, *the possibility to reliably measure the amount of revenue, the probability that the economic benefits associated with the transaction will flow into the entity, and the possibility of reliably measuring the costs incurred or to be incurred in relation to the transaction*'' (FRS for LMSE, 2019: pr.5.14).

As regard to service rendering, both sets use the percentage of completion method. Also, for services performed in an indeterminate number of actions over a specific period, revenue recognition should be on a straight-line basis over the specified period (AUDCIF & SYSCOHADA, 2017: 133; FRS for LMSE, 2019: pr.5.18-5.20). Additionally, in the FRS for LMSE, in cases where the transaction for service rendering cannot be reliably measured, the revenue should be recognized following the level of the expected amount of the expenses to be covered (FRS for LMSE, 2019: pr.5.21).

Finally, under the FRS for LMSE, interests related to maturity distinction are recognized using the effective interest method (FRS for LMSE, 2019: pr.5.41). However, the SYSCOHADA does not use this method for individual financial statements.

Accounting Policies, Estimates and Errors

The SYSCOHADA and the FRS for LMSE share many common points as regards to accounting policies, estimates and errors. However, while the FRS for LMSE has a whole chapter dedicated to the issue, the SYSCOHADA discusses it in its Conceptual Framework.

As regards of error corrections, the two sets differ slightly. In the FRS for LMSE, for errors that have occurred before the earliest prior period, opening balances of assets, liabilities and equity of the earliest prior period affected should be established (FRS for LMSE, 2019: pr.27-28). Such specification does not exist under the SYSCOHADA. The SYSCOHADA only requires an adjusting of the equity in the opening balance sheet by decreasing or increasing the retained earnings. As for non-material errors resulting from previous reporting periods, the correction of errors should be made directly in the balance sheet accounts or in the income or expense (AUDCIF & SYSCOHADA, 2017: 93).

Agricultural Activities

The FRS for LMSE chapter on agricultural activities is broadly in line with the IAS 41 *Agricultural Activities* on various aspects (Cavlak and Ataman, 2017: 160; Karahan, 2019: 66). On the contrary, the SYSCOHADA does not explicitly refer to the IAS/IFRS as regard to this topic. However, it shares quite a lot of common points with the FRS for LMSE.

Both sets define biological assets, agricultural produce, and harvest quiet similarly (AUDCIF & SYSCOHADA, 2017: 902–903; FRS for LMSE, 2019: pr.7.2). Furthermore, as regard to presentation in the financial statements, both sets classify biological assets based on whether they are current or non-current assets (AUDCIF & SYSCOHADA, 2017: 902; FRS for LMSE, 2019: pr.7.13).

As regards of assets recognition, both the FRS for LMSE and the SYSCOHADA are similar. Both biological assets and agricultural produce are recognized in financial statements when they meet the definition of asset and the criteria of recognition which are: the asset is controlled due to past events; it is likely that the economic benefits will flow into the entity and the cost can be reliably measured (AUDCIF & SYSCOHADA, 2017: 903–908; FRS for LMSE, 2019: pr.7.4-7.10).

As for measurements, both sets use the cost model and the fair value referred as the actual value in the SYSCOHADA (AUDCIF & SYSCOHADA, 2017: 908–909; FRS for LMSE, 2019: pr.7.5).

Finally, as we can see the SYSCOHADA and the FRS for LMSE is very similar regarding the accounting processing of agricultural activities.

Exploration and Evaluation of Mineral Resources

The SYSCOHADA is in line with both the IFRS 6 *Exploration for and Evaluation of Mineral Assets* and the interpretation of the IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine.* Under the SYSCOHADA, both initial and subsequent measurements are done following the cost method (AUDCIF & SYSCOHADA, 2017: 583–585).

The FRS for LMSE is also in line with the IFRS 6 *Exploration for and Evaluation of Mineral Assets.* The FRS for LMSE also uses the cost method for initial and subsequent measurements (FRS for LMSE, 2019: pr.8.7).

Finally, we can see that both sets are broadly in line with the IAS/IFRS, and both use the historical cost as a measurement method.

Leases

The SYSCOHADA processing of leases has been inspired by the IFRS 16 *Leases* (AUDCIF & SYSCOHADA, 2017: 623). However, the SYSCOHADA seems to be more in line with the old version for lease operations IAS 17 *Lease.* The SYSCOHADA distinguishes two different types of contract leases: the *acquisition-lease contract* which can be refereed as a financial lease and the *simple-lease contract* which can also be referred as an operating lease (AUDCIF & SYSCOHADA, 2017: 625).

Under an acquisition-lease contract, the lessee on one hand should recognize the asset arising from such contract as an acquisition resulting from a financial liability (AUDCIF & SYSCOHADA, 2017: 626). The lessor on the other hand should recognize the operation as a sell considering that almost all risks and returns arising from the ownership of the asset are transferred to the lessee (AUDCIF & SYSCOHADA, 2017: 634).

Under a simple-lease contact, on one hand, the lessee should not recognize the asset in its balance sheet and lease payments are recognized as expenses in the income statement on a straight-line basis throughout the term of the contract (AUDCIF & SYSCOHADA, 2017: 632). On the other hand, the lessor is considered not having transferred almost all the risks and rewards attached to the leased asset to the lessee and therefore, assets subject to the operating leases must be presented in the lessor's balance sheet. Also, in the income statement, revenues from rented assets must be recognized as income on a straight-line basis over the entire term of the rental contract (AUDCIF & SYSCOHADA, 2017: 636).

The FRS for LMSE is broadly in line with the IAS 17 *Leases* which has been supersede by the IFRS 16 *Leases* since 1 January 2019. The only main difference between the two standard is that *operating lease* in the IAS 17 is referred as traditional lease ‘‘*Geleneksel Kiralama’’* under the FRS for LMSE (Cavlak and Ataman, 2017: 162).

In the FRS for LMSE as in the IAS 17, leases are classified in two types: *Financial* and *Traditional Lease*. Leases where all risks and rewards are transferred to the owner are classified as financial lease whereas, leases without a transfer of risks and rewards are classified as traditional /operating lease (FRS for LMSE, 2019: pr.15.7-15.8).

In a financial lease under the FRS for LMSE, an asset is recognized in the Statement of Financial Position of the lessee and a receivable equal to the total fair value of the asset and the initial direct costs should be recognized by the lessor. With regard to traditional/operating leases, payments are recognized in the Profit and Loss Statement as expenses in profit or loss over the lease term following a straight-line basis by the lessee whereas, a lessor recognizes lease payments in the Profit and Loss Payment as profit or loss over the lease term and on a straight-line basis as well (FRS for LMSE, 2019: pr.15.19-15.30).

As we can see, the two accounting sets are very similar with regard to lease classification, measurement and recognition. Both accounting distinguish two types of leases and have similar measurement and recognition for the lessee and the lessor. The only main difference between the two sets may be on the naming of the leases. The SYSCOHADA refers to financial lease as *Acquisition-Lease Contract* and traditional lease (operating lease) as *Simple- Lease Contact***.**

Investment Property

Both the SYSCOHADA and the FRS for LMSE are in some extent in line with the IAS 40 *Investment Property* as regard of accounting processing of investment properties (AUDCIF & SYSCOHADA, 2017: 646; Cavlak and Ataman, 2017: 161). Also, the two sets have very similar definitions of investment property, and both use the cost method for initial recognition of asset classified as investment properties (AUDCIF & SYSCOHADA, 2017: 650–652; FRS for LMSE, 2019: pr.13.5-13.7).

However, unlike the FRS for LMSE the SYSCOHADA does not use the fair value as a measurement method for subsequent measurement of investment properties. Also, as regard to the presentation of investment properties, in the Statement of Financial Position under the FRS for LSME such assets are separately presented in "*Investment Property*" item line (FRS for LMSE, 2019: pr.13.22) while in the SYSCOHADA they are combined with other *Sites, Buildings* with a mention ‘‘*including investment property*’’ if there is one (AUDCIF & SYSCOHADA, 2017: 653).

Sites and Buildings

Both the SYSCOHADA and the FRS for LMSE use the same concept as regard to sites and buildings. Also, both the SYSCOHADA and the FRS for LMSE are somehow in line with the IAS 16 *Property, Plant and Equipment*

In the SYSCOHADA, the entry value of a site/terrain must always be distinguished from that of the corresponding building (AUDCIF & SYSCOHADA, 2017: 328–332). In the FRS for LMSE, the same rule applies: ‘‘*Land and buildings are separable assets, and an entity shall account them separately, even when they are acquired together.*’’ (FRS for LMSE, 2019: pr.12.5). Also, in both accounting sets, sites/terrains are not depreciated (AUDCIF & SYSCOHADA, 2017: 339; FRS for LMSE, 2019: 12.23).

Depreciation of Assets

Both the SYSCOHADA and the FRS for LMSE were prepared following the IAS 16 *Property, Plant and Equipment*. Therefore, under the SYSCOHADA, depreciation for a given asset starts at the time when the asset is ready for use and at the place where it is intended to be used by a given entity (AUDCIF & SYSCOHADA, 2017: 347). Similarly, in the FRS for LMSE, depreciation of an asset begins once it is ready for use and is stopped at the time when the asset is derecognized. Accordingly, assets that start to be used once the fiscal year has already started should be amortized using a daily approach (kıst amortisman) (FRS for LMSE, 2019: pr.10.26). Moreover, both the SYSCOHADA and the FRS for LMSE allows various method to be used for asset depreciation purpose. Those methods include but not limited to the straight-line method, the diminishing balance method the units of production method and any other relevant method (AUDCIF & SYSCOHADA, 2017: 347; FRS for LMSE, 2019: 12.29).

Borrowing cost

Both the SYSCOHADA and the FRS for LMSE process assets almost the same way as they all follow the IAS 23 *Borrowing Costs.*

In the SYSCOHADA, on their own judgement, entities determine whether an asset could be classified as a qualified asset and recognize such asset as requiring a long period usually a year to be ready for use or to be sold. However, in the SYSCOHADA**, an entity might choose to classify an asset as a qualified one for a period less than 12 months if it concludes that such period is significant. Such scenario should however be disclosed in the notes.** Finally**,** any borrowing cost related to a qualified asset should be include to the cost of such asset. But the amount of the incorporated costs during a given fiscal year must not exceed the total borrowing costs incurred during that same fiscal year (AUDCIF & SYSCOHADA, 2017: 618–619).

In the FRS for LMSE, borrowing costs for qualified assets (assets with a production, construction, or creation longer than one year under normal conditions) shall also be included in the cost of the given asset, until the time the asset is ready for use or sale. Other borrowing costs should be recognized in the profit or loss in the related item of the Statement of Profit or Loss within the period in which they are incurred (FRS for LMSE, 2019: pr.17.2).

Internally Generated Intangible Assets

On the internally generated internal assets, both the SYSCOHADA and the FRS for LMSE share the same common denominator which is the inspiration form the IAS 38 *Intangible Assets*.

In the SYSCOHADA, expenses related to some internally generated intangible asset such as *patent, developed software and e-commerce websites* are recognized as intangible assets when they meet the requirements for being recognized as such (AUDCIF & SYSCOHADA, 2017: 557–569). However, incurred costs related to internally generated *brands, customer lists and similar items* are recognized as expenses given that they cannot be distinguished from costs incurred to develop the activity of the entity as a whole (AUDCIF & SYSCOHADA, 2017: 571–573). Also, internally generated goodwill should never be recognized as an intangible asset according to the SYSCOHADA (AUDCIF & SYSCOHADA, 2017: 574).

Similarly, under the FRS for LMSE, ‘‘*Internally generated goodwill and expenditures that incurred on an intangible item and do not meet the definition of intangible assets shall not be recognized as an intangible asset unless it forms part of the cost of another asset that meets the recognition criteria in this standard, they are recognized as expenses in profit or loss when they are incurred*’ (FRS for LMSE, 2019: pr.14.14).

Recherche and Development Expenses

Operations related to research and development under both the SYSCOHADA and the FRS for LMSE are in line with the IAS 38 *Intangible assets*.

Under the SYSCOHADA, the distinction between the research and development phases should be clearly distinguishable otherwise, all incurred cost must be recognized as expenses for the ongoing reporting period. Also, ‘‘*expenses incurred for research, or during the research phase of an internal project, cannot be capitalized but must be systematically recognized as expenses for the year during which they are incurred and cannot be activated later*’’ (AUDCIF & SYSCOHADA, 2017: 547). On the other hand, expenses incurred during the development phase are recognized as intangible assets if the six following conditions can be demonstrated:

- ✓ *‘‘The technical feasibility of completing the intangible asset so that it will be available for use or sale.*

- ✓ *Its intention to complete the intangible asset and use or sell it.*
- ✓ *Its ability to use or sell the intangible asset.*
- ✓ *How the intangible asset will generate* ***probable*** *future economic benefits.*
- ✓ *The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.*
- ✓ *Its ability to measure reliably the expenditure attributable to the intangible asset during its development.''*

Otherwise, these expenses are recognized as expenses (AUDCIF & SYSCOHADA, 2017: 549).

Similarly, in the FRS for LMSE, expenditures related to the research phase must not be capitalized but should be recognized as expenses in profit or loss during the period when these expenses are incurred (FRS for LMSE, 2019: pr.14.16). Such expenses are recognized as intangible assets only when they meet the requirement laid out in the standard which are identic to those listed above under the SYSCOHADA (FRS for LMSE, 2019: pr.14.17).

Provisions

Both the SYSCOHADA and the FRS for LMSE are broadly in line with the IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* Under both accounting sets, the recognition of any provision by an entity is subject to the following tree conditions that should be met (AUDCIF & SYSCOHADA, 2017: 728; FRS for LMSE, 2019: 19.5).

- ✓ An obligation for the entity at the reporting date as a result of a past event.
- ✓ The probability that the entity will be required to transfer economic benefits in settlement.
- ✓ The amount of the obligation can be reliably estimated.

Financial Instruments and Equity/ Securities portfolio

The SYSCOAHADA and the FRS for LMSE despite having some definitions that relate with each other, the two sets seem very different regarding financial instruments.

First, the SYSCOHADA takes a very basics and simple approach on these instruments and refer to them as securities portfolio whereas the FRS for LMSE seems more complex and detailed and refers to them as financial instrument and equity.

Second, as opposed to the FRS for LMSE which has been prepared following the IAS/IFRS, financial instruments under the SYSCOAHADA are not so much in line with the ISA/IFRS standards contrary to other of its chapters.

Third, the SYSCOHADA classify these instruments into two main categories which are securities recognized as fixed assets (equity instrument, fixed financial assets) and investment securities (AUDCIF & SYSCOHADA, 2017: 673). On the contrary, the FRS for LMSE classify security instruments into four (4) main categories (receivables and payables, debt instruments, investment in equity instruments and other financial instruments) (Karahan, 2019: 67).

Finally, as for initial and subsequent measurements, the two sets also differ from one another. Both sets use the cost method and the fair value in some subsequent measurements (AUDCIF & SYSCOHADA, 2017: 675–681; FRS for LMSE, 2019: pr.9.8-9.21). However, the SYSCOHADA does not use the amortized cost in individual financial statements. Also, there is a stark difference when it comes to the recognition of gains and losses arising from the differences of the fair value measurements. Under the FRS for LMSE those gains, and losses are recognized in the items dedicated to them (FRS for LMSE, 2019: pr.9.20-25) while in the SYSCOHADA following the prudence principle, it is not allowed to recognize the value appreciation of securities until they are sold and therefore only losses are recognized (AUDCIF & SYSCOHADA, 2017: 673).

Inventories

The SYSCOHADA and the FRS for LMSE are both in line with the IAS 2 *Inventories*. Both accounting sets are rather compatible as regard of measurement, recognition, and valuation. Under both sets, the cost method is the measurement basis for inventories (AUDCIF & SYSCOHADA, 2017: 686; FRS for LMSE, 2019: pr.6.6). Furthermore, in both accounting sets, borrowing cost are included in the inventories' costs only when it is a qualifying asset which takes more than a year to produce maturity distinction for inventories purchased in payment over more than a year (AUDCIF & SYSCOHADA, 2017: 686; FRS for LMSE, 2019: pr.6.9).

The main significant differences are related to maturity distinction and the classification of unallocated overheads and impairment losses. The SYSCOHADA does not mention the use of the effective interest method for the purpose of maturity distinction in individual financial statements. In contrast to this, in the FRS for LMSE requires the use of the effective interest method to calculate the maturity distinction for inventories purchased in payment over more than a year (FRS for LMSE, 2019: pr.6.8). Also, while the SYSCOHADA uses the normal cost as the main method for cost recognition and authorizes other techniques such as the standard cost method or the retail price method when they lead to a same result, the FRS for LME uses only the full cost method for determining cost of inventories but allows the use of the normal cost method (AUDCIF & SYSCOHADA, 2017: 691; FRS for LMSE, 2019: pr.6.12-6.13).

As for the classification, under the SYSCOHADA, impairment losses and unallocated overhead are recognized in the profit and loss for the period in which they occur (AUDCIF & SYSCOHADA, 2017: 688). In the FRS for LMSE such costs are included in the "*Cost of Sales*" (FRS for LMSE, 2019: pr.6.13).

Finally, both sets measure inventories at the lower of cost and net realizable value (AUDCIF & SYSCOHADA, 2017: 692; FRS for LMSE, 2019: pr.6.4). In addition, impairment losses are recognized in the profit and loss of the period in which they occur (AUDCIF & SYSCOHADA, 2017: 696; FRS for LMSE, 2019: pr.6.22).

Government grants

Both the SYSCOHADA and the FRS for LMSE define quite similarly government grants as public assistance characterized by transfers of resources to an entity in exchange of a compliance with certain conditions related to its operating activities (AUDCIF & SYSCOHADA, 2017: 715; FRS for LMSE, 2019: pr.16.2). However, the two accounting sets completely differ on recognition and classification of such grants.

First, on one hand the SYSCOHADA offers a classification of government grants following the nature of the grant and therefore, we have *investment grants* aimed at acquiring or creating fixed assets or to finance long-term activities; *operating grants* aimed at compensating for the insufficiency of some operating income or some operating expenses; *equilibrium grants* aimed at compensating in total or in part the loss that an entity would have incurred if the grant had not been delivered (AUDCIF & SYSCOHADA, 2017: 715–716)**.** On the other hand, the FRS for LMSE does not offer any classification of such grants.

Second, the SYSCOHADA uses both the equity and income approach to recognize government grants following the nature of the grant. *Investment grants* are recognized as an increase in equity on the date the grant is given. Such grant will be incorporated in profit and loss over the period of useful life (in case of acquisition of amortizable asset) or over a period of 10 years for non-amortizable asset (AUDCIF & SYSCOHADA, 2017: 717). Other types of grants are recognized as an income to be included in the profit or loss for the period in which the grant is given (AUDCIF & SYSCOHADA, 2017: 718–719). However, in the FRS for LMSE, grants with no future condition to be met or if conditions have already been met should be recognized in profit or loss (FRS for LMSE, 2019: pr.16.7)

Finally, both accounting link the recognition of grant to the fulfillment of present or future conditions.

Currency Translation

Under the SYSCOHADA, currency translation related to payables and receivables must be recognized in the balance sheet (AUDCIF & SYSCOHADA, 2017: 787). Furthermore, under the SYSCOHADA, following the prudence principle, potential profit should not be included in the profit and loss of the reporting period and for potential losses, a provision should be allocated. However, for long term financial assets or liabilities, this rule does not apply. Profit or losses related to such assets occur on the date of the collection or the settlement of receivables and debts in foreign currencies (AUDCIF & SYSCOHADA, 2017: 791). On the contrary, foreign currencies in cash should be translated into the country's legal currency based on the exchange rates at the end of the reporting period, and profit or losses are directly recognized in the income statement of the period 795 (AUDCIF & SYSCOHADA, 2017: 795).

Currency translation under the SYSCOHADA follows three methods: the direct integration method for a small number of operations using the operation day’s exchange rate or a standard exchange rate; the deferred integration method using the exchange rate on the inventory date once operations with foreign currencies are significant; the mixed integration method (AUDCIF & SYSCOHADA, 2017: 897–899).

Following the 17th article of the AUDICIF, financial reporting in the SYSCOHADA, should only be done into the country's legal currency (AUDCIF & SYSCOHADA, 2017: 13).

However, under the FRS for LMSE, the functional currency is not necessarily the local currency (The Turkish Lira), it can be another currency (FRS for LMSE, 2019: pr.20.2). Also, the determination of the functional currency of an entity depends on specific factors such as: the influence of the currency on sales prices of goods and services, the influence of the currency on labor, raw material, and other costs, we also have the main currency used on the receipts of the entity's operating activities and finally the currency for financing activities (FRS for LMSE, 2019: pr.20.3-20.4). Furthermore, both for monetary and non-monetary items, gains and losses related to currency translations are recognized in profit and loss for the reporting period in which they have occurred except for foreign exchange profit or losses on property, plant and equipment which are measured at their revalued amount (FRS for LMSE, 2019: pr.20.13-20.15).

Finally, the FRS for LMSE was prepared following the IAS 21 *The Effects of Changes in Foreign Exchange Rates.* However, the SYSCOHADA was not prepared based on this standard. Also, the functional currency under the FRS for LMSE is referred as the country's legal currency in the SYSCOHADA and while the FRS for LMSE allows other currencies different from the Turkish Lira to be used as the functional currency, the SYSCOHADA requires accounting to be held in the country's legal currency.

Construction Contracts

Both the SYSCOHDA and the FRS for LMSE define construction contracts as a contract specifically negotiated for the construction of either an asset or a combination of assets which are closely interrelated or interdependent as regard of design, technology and function or their ultimate purpose or use (AUDCIF & SYSCOHADA, 2017: 797; FRS for LMSE, 2019: pr.5.22).

The SYSCOHADA was prepared following the **IA**S 11 *Construction Contracts* and the IFRS 15 *Revenue from Contracts with Customers*. The FRS for LMSE on the contrary is in line with the IAS 18 *Revenue* and IAS 11 *Construction Contracts* and unlike the SYSCOHADA, it does not fully comply with the IFRS 15 *Revenue.*

As for recognition, both sets use the *percentage-of-completion method* as the main valuation method (AUDCIF & SYSCOHADA, 2017: 799–800; FRS for LMSE, 2019: pr.5.23). However, in addition to that method, the SYSCOHADA also uses the *method at completion.* In this method, the amount of revenue and the profit or loss are recognized at the end of operations (once everything has been completed). This method is used once an entity is unable to reliably estimate the result at completion and therefore no profit or loss is recognized following the prudence convention. All expenses incurred for the execution of the contract during the reporting period are offset by an amount of revenue equal to those expenses (AUDCIF & SYSCOHADA, 2017: 804).

Finally, the SYSCOHADA does not mention the use of the effective interest rate method for the purpose of maturity distinction as it is in the FRS for LMSE.

Financial Reporting in Hyperinflationary Economies

Both the SYSCOHADA and the FRS for LMSE was inspired by the IAS 29 *Financial Reporting in Hyperinflationary Economies* (AUDCIF & SYSCOHADA, 2017: 831; Cavlak and Ataman, 2017: 163). Therefore, the two sets are quite similar on the topic.

In both accounting sets, hyperinflation is characterized among other things by a three-year cumulative rate of inflation approaching or exceeding 100%. Also, both use the general price index for adjusting the effect of inflation (AUDCIF & SYSCOHADA, 2017: 843–845; FRS for LMSE, 2019: pr.25.2).

However, in the FRS for LMSE, entities using other currencies (different from the Turkish Lira) as functional currency should adjust their financial statements with the general price index of the economy to which the currency belongs to (FRS for LMSE, 2019: pr.25.4-25.6). In the SYSCOHADA, the use of other currency other than the legal currency of the country as functional is not allowed.

Finally, in both accounting sets, when an economy is no longer hyperinflationary, the entity should not adjust any longer its financial statement (AUDCIF & SYSCOHADA, 2017: 846; FRS for LMSE, 2019: pr.25.25).

Events after the Reporting Period

Both the SYSCOHADA and the FRS for LMSE are prepared following the IAS 10 *Events After the End of the Reporting Period* (AUDCIF & SYSCOHADA, 2017: 863; Şen and

Özbirecikli, 2018: 466). Therefore, there is no major differences between the two sets as regards of accounting processing of events after the reporting period.

Both sets define events after the end of the reporting period as events, favorable and unfavorable, which occur between the end of the reporting period and the closing date of the financial statements and classify these events as adjusting events and non-adjusting events (AUDCIF & SYSCOHADA, 2017: 863–865; FRS for LMSE, 2019: pr.4.2)

Finally, any change of the going concern assumption should be clearly explained and financial statements should not be prepared accordingly (AUDCIF & SYSCOHADA, 2017: 868; FRS for LMSE, 2019: pr.4.7).

Joint Ventures Operations

The SYSCOHADA completely differ from the FRS for LMSE as regard of accounting processing of joint ventures.

While the FRS for LMSE complies with the IAS/IFRS (Şen and Özbirecikli, 2018: 471), the SYSCOAHADA does not refer to the IAS/IFRS with regards to joint ventures. In the SYSCOHADA the joint operations refer to operations carried out within the framework of communities of interest, the most common of which being joint ventures (AUDCIF & SYSCOHADA, 2017: 877). Also, unlike the FRS for LMSE, the SYSCOAHADA does not provide a classification for joint operations. In the FRS for LMSE, such operations are divided into three types which are: jointly controlled operations, jointly controlled assets, and jointly controlled entities following their constitution form (FRS for LMSE, 2019: pr.11.4).

As for recognition, in the SYSCOHADA, assets which are the property of each party must appear in its balance sheet, even if they are reserved for the achievement of the purpose of the joint venture. All investments and other operations that occur between parties in joint venture entity's activity are recognized through the ‘‘*463 Associates, operations carried out jointly*’’, in the financial statement of each participant (AUDCIF & SYSCOHADA, 2017: 879). On the contrary, in the FRS for LMSE, the recognition of each operation depends on the type of the joint venture agreement.

Impairment of assets:

Both the SYSCOHADA and the FRS for LMSE are prepared following the IAS 36 *Impairment of assets.* Under both standards, assets are subject to impairment test at the end of each fiscal period. However, the two sets differ on *goodwill* processing.

In the SYSCOHADA, the *goodwill*, either amortized or not, should be tested for impairment when there is an indication of impairment. Let us mention that under the SYSCOHADA, goodwill must be amortized when the useful life is limited and can be determined with regard to certain criteria. If the useful life is limited but cannot be determined reliably, the goodwill is amortized over a period of 10 years. On the contrary, if the useful life is unlimited, there is no amortization impairment (AUDCIF & SYSCOHADA, 2017: 575).

In the FRS for LMSE, although subject to depreciation, goodwill is not tested for impairment (FRS for LMSE, 2019: pr.18.23). Also, intangible assets are amortized over the period of their useful life. On the other hand, once the useful life is indefinite, an intangible asset is amortized over 5 to 10 years (FRS for LMSE, 2019: pr.14.33).

As we can see here, the SYSCOHADA is in the middle between the IAS/IFRS and the FRS for LMSE as regards to impairment assets.

Business combinations/ Mergers and Similar Transactions

The SYSCOHADA and the FRS for LMSE differ on various points as regards of business combinations.

First, the FRS for LMSE shares several common points with the IFRS 3 *Business Combinations*, such as the goal, the scope, and the use of purchase price for recognitions (Karahan, 2019: 77). The SYSCOHADA chapter for business combination *Mergers and Similar Transactions* on the contrary does not refer to the IFRS 3.

Second, although the definition of the business combination process is somehow similar between the two sets, the SYSCOHADA refers to these operations as merger and similar transactions while the FRS for LMSE refers to them as business combinations (AUDCIF & SYSCOHADA, 2017: 917; FRS for LMSE, 2019: pr.21.2). Also, unlike the SYSCOHADA, in the FRS for LMSE these operations are required only for large entities (FRS for LMSE, 2019: pr.21.6).

Third, on measurement and recognition, the actual (also the known as the fair value) and the book value are those used under the SYSCOHADA while under the FRS for LMSE, only the fair value of transferred consideration and the direct cost incurred for the combination are used (AUDCIF & SYSCOHADA, 2017: 920; FRS for LMSE, 2019: pr.21.13-21.14). Furthermore, under the FRS for LMSE, the arising goodwill is recognized as an asset and the negative goodwill is recognized as a gain on the acquisition date under "*Other Income*" in the Statement of Profit and Loss (FRS for LMSE, 2019: pr.21.26-21.28). However, in the SYSCOHADA, only the goodwill is recognized, and it does not address the negative goodwill (AUDCIF & SYSCOHADA, 2017: 927).

Finally, the FRS for LMSE considers direct costs as part of business combinations while under the SSYSCPHADA such costs once external are considered as securities issuance costs that should be recognized either as expenses or as merger premiums (AUDCIF & SYSCOHADA, 2017: 926).

Interim Financial Reporting

Both the SYSCOHADA and the FRS for LMSE are in line with the IAS 34 *Interim Financial Reporting* (AUDCIF & SYSCOHADA, 2017: 936; Karahan, 2019: 80; Şen and Özbirecikli, 2018: 480). Therefore, the two accounting sets are quite similar as regard of interim financial statement presentation.

Under both sets, there is no requirement related to the disclosure of interim financial statement for entities not subject to consolidation (AUDCIF & SYSCOHADA, 2017: 926; FRS for LMSE, 2019: pr.24.2). However, while under the FRS for LMSE Statement of Change in Equity Statement is part of the package of statements to be disclosed, under the SYSCOHADA, we do not have such statement neither for annual statement nor for interim financial statement.

Finally, any change in accounting policies should result to the adjustment of both current and previous interim financial statements (AUDCIF & SYSCOHADA, 2017: 938; FRS for LMSE, 2019: pr.24.16).

Investment in Associates

Both the SYSCOHADA and the FRS for LMSE define the significant influence as the ability to influence financial and operational decisions of an entity by owning at least 20%

of its voting power (AUDCIF & SYSCOHADA, 2017: 50; FRS for LMSE, 2019: pr.10.4).

Also, the cost measurement should be used under both sets for initial recognition of associates (AUDCIF & SYSCOHADA, 2017: 1120; FRS for LMSE, 2019: 10.7). However, for subsequent measurement, associates are measure at either the cost method or equity method under the FRS for LMSE for individual financial statements while under the SYSCOHADA, the fair value (referred as the actual value) is the method to be used (AUDCIF & SYSCOHADA, 2017: 681; FRS for LMSE, 2019: pr.10.9). As for consolidated financial statements, the cost and the equity method are used under both sets (AUDCIF & SYSCOHADA, 2017: 1120; FRS for LMSE, 2019: pr.10.10).

Income Taxes

Both the SYSCOHADA and the FRS for LMSE distinguish two types of income taxes which are current and deferred taxes. However, while the two sets are very similar as regard of current income taxes, they differ on the deferred income taxes' presentation.

On one hand, in the SYSCOHADA, deferred taxes are only presented in consolidated financial statements and not in individual financial statements (AUDCIF & SYSCOHADA, 2017: 187). On the other hand, in the FRS for LMSE, deferred taxes must be presented for large entities both in individual and consolidated financial statements (FRS for LMSE, 2019: pr.23.3).

Statement of Cash Flows

Both the SYSCOHADA and the FRS for LMSE present the Statement of Cash Flows following specific models. Furthermore, under both sets, cash flows are presented following same rubrics which are: operating activities, investing activities and financing activities (AUDCIF & SYSCOHADA, 2017: 988; FRS for LMSE, 2019: pr.2.1).

However, the two accounting sets completely differ on the process of calculating cash flows. The SYSCOHADA does follows the direct or indirect methods suggested under the FRS for LMSE. Instead, cash flow from operating activities are calculated starting from the gross operating income and adjusted (AUDCIF & SYSCOHADA, 2017: 989). This method might be similar to the indirect method in the FRS for LMSE.

Consolidated Financial Statements

In both accounting sets the control power define the requirement to prepare consolidated financial statements. However, under the SYSCOHADA if there is only a significant influence over another entity, there is no requirement for the parent entity to prepare consolidated financial statements unless it has exclusive or joint control power over some other entities (AUDCIF & SYSCOHADA, 2017: 1111).

In the FRS for LMSE, medium entities although eligible are exempted from preparing consolidated financial statement (FRS for LMSE, 2019: pr.20.10-20.11). Such exemption also exists in the SYSCOHADA for entities subject to the *Normal System* but do not exceed for two successive reporting periods a turnover of CFAF 500,000,000 (USD 925,000) (AUDCIF & SYSCOHADA, 2017: 56). Furthermore, in the FRS for LMSE, other exemptions include in some extent large entities (parents) which have an ultimate parent operating in Turkey, and which has the obligation to prepare consolidated financial statements (FRS for LMSE, 2019: pr.22.16). In the SYSCOHADA, a similar exemption rule is applied but refer to entities operating within the same legal space of the OHADA (there is five (5) legal spaces in the OHADA including two monetary unions and three (3) countries) (AUDCIF & SYSCOHADA, 2017: 1111–1112).

As regards of consolidation methods, the full consolidation must be used under the FRS for LMSE (FRS for LMSE, 2019: pr.22.14). However, in the SYSCOHADA, three (3) consolidation methods are used depending on the nature of the control. The full consolidation method for subsidiaries under exclusive control, the proportional consolidation method for entities under joint control, and the equity method for entities under significant influence (AUDCIF & SYSCOHADA, 2017: 1119–1120).

Finally, under both sets, in case of control lost or significant influence lost, there should be adjustments related to such operations (AUDCIF & SYSCOHADA, 2017: 1164; FRS for LMSE, 2019: pr.22.32). Also, in both sets, consolidated financial statements should be prepared following the given models of financial statements.

Combined Financial Statements

Various economic relations may arise between different entities without resulting to a parent-subsidiary relationship. Such relationship may lead to the necessity of preparing financial statements which cannot be called "*consolidated financial statements*" but instead "*combined financial statements*", as if they were a single entity. The

SYSCOHADA does not requires such statements to be prepared but defines the rules and guidance for their preparation. However, a group of entities operating within one of the OHADA legal spaces and subject to the same strategic decision-making center located outside the region, without a control power relationship between them, are required to prepare "*combined financial statements*". In addition, local authorities of each state member of the OHADA may require entities to prepare such statements (AUDCIF & SYSCOHADA, 2017: 1192).

The combining entity is designated among entities within the combination scope following a written agreement between all the constituent entities. In the absence of a conventional agreement and unless a legal provision is applied, no combination is prepared (AUDCIF & SYSCOHADA, 2017: 1197).

For entities within the combination scope, the combination is an aggregation of accounts, previously restated to the group standards and carried out according to rules identical to those related to full or proportional consolidation. This can be subject to certain specific modifications and methods (AUDCIF & SYSCOHADA, 2017: 1199).

The FRS for LMSE does not offer any regulation related to combined financial statements.

Notes

While Notes are considered to provide additional information to other financial statements under both the SYSCOHADA and the FRS for LMSE, the two sets completely differ on the way the notes are presented.

The SYSCOHADA gives 46 model of Notes to be presented under the *Normal System* and 6 model of notes to be presented under the *Minimum Cash System*. These models comprise tables following each by comments that should be made. The FRS for LMSE does not give any specific model to be followed by an entity for presenting notes. Instead, the set gives general principles related to notes' presentation and disclosures (FRS for LMSE, 2019: pr.26.1). In the FRS for LMSE, requirements related to Notes also vary following both, the size (Large or Medium) and the type of financial statements (individual or consolidated) (FRS for LMSE, 2019: pr.25.6).

Transitional Requirements

Both the SYSCOHADA and the FRS for LMSE have established transitional requirement for entities which are subject to presenting their financial statements for the first time according to each set.

3.2. Case Study

An entity called *AFROTURKISH COMPANY Ltd.* which operates in one of the OHADA member countries (Guinea) as a commercial company, manufacturing and selling furniture, has (Balance sheet and Income Statement) following the SYSCOHADA accounting rules. For the purpose of our study, these financial statements will be restated and adapted to their equivalent in the FRS for LMSE which are the Statement of financial Position and the Statement of Profit and Loss. Therefore, here below there will be:

- Additional information.
- Necessary adjustments and comments on the differences between the two sets.
- Financial statements prepared following the FRS for LMSE.
- Remarks and additional information.

3.2.1. Financial Statements Prepared Following the SYSCOHADA

Here bellow, we have individual financial statements prepared following the SYSCOHADA accounting rules. These statements will be restated and adapted to their equivalent in the FRS for LMSE.

AFROTURKISH COMPANY Ltd.

BALANCE SHEET (ASSETS) 31/12/2020

REF	ASSETS	Note	FISCAL YEAR 31/12/2020		
			GROSS	DEPRE. AND IMPAIR.	NET
AD	**INTANGIBLE ASSETS**	**3**	**4 650 000**	**0**	**4 650 000**
AF	Patents, licenses, software, and similar rights		3 050 000		3 050 000
AG	Goodwill, leasehold rights		1 600 000		1 600 000
AI	**TANGIBLE ASSETS**	**3**	**1 012 410 344**	**321 157 361**	**691 252 983**
AJ	Sites (1) (1) Including Investment		38 673 950		38 673 950
AK	Buildings (1) (1) Including Investment		741 411 100	160 048 641	581 362 459
AL	Fixtures, fittings, and installations		73 328 267	71 328 267	2 000 000
AM	Equipment, furniture, and biological assets		82 947 027	35 540 453	47 406 574
AN	Transport material		76 050 00	54 240 000	21 810 000
AP	**ADVANCES AND DOWN PAYMENTS ON FIXED ASSETS**	**3**	**20 000 000**		**20 000 000**
AQ	**FINANCIAL FIXED ASSETS**	**4**	**4 419 790**	**0**	**4 419 790**
AS	Other financial fixed assets		4 419 790		4 419 790
AZ	**TOTAL FIXED ASSETS**		**1 041 480 134**	**321 157 361**	**720 322 773**
BA	**CURRENT ASSETS HAO***	5	**2 140 000**		**2 140 000**
BB	**INVENTORIES AND WORK-IN-PROGRESS**	6	**18 560 138**		**18 560 138**
BG	**RECEIVABLES AND RELATED**		**206 981 960**	**31 677 520**	**175 304 440**
BH	Given Advances	17	857 612		857 612
BI	Receivables	7	167 938 821	31 677 520	136 261 301
BJ	Other receivables	8	38 185 527		38 185 527
BK	**TOTAL CURRENT ASSETS**		**227 682 098**	**31 677 520**	**196 004 578**
BQ	Financial security	9	20 000 000		20 000 000
BS	Banks, post checks, cash and related	11	103 097 127		143 097 127
BT	**TOTAL CASH ASSETS**		**123 097 127**	**0**	**143 097 127**
BU	Currency conversion - Asset	12	15 000 000		15 000 000
BZ	**GENERFAL TOTAL**		**1 407 259 359**	**352 834 881**	**1 054 424 478**

*HAO: Non-ordinary activities or activities not related (less frequent and non-recurring) to the entity’s core business.

AFROTURKISH COMPANY Ltd.

BALANCE SHEET (LIABILITIES) 31/12/2020

REF	LIABILITIES	Note	FISCAL YEAR as of 31/12/2020
			NET
CA	Capital	13	400 000 000
CB	Uncalled capital contributors (-)	13	-100 000 000
CD	Revaluation differences	3e	3 500 000
CE	Unavailable reserves	14	20 000 000
CF	Retained earnings (+/-)	14	76 069 991
CG	Annual net income (profit + or loss -)		215 389 710
CH	Investment grant	15	2 000 000
CJ	Regulated provisions	15	40 000 000
CP	**TOTAL EQUITY AND SIMILAR RESSOURCES**		**656 959 701**
DA	Borrowings and miscellaneous financial debts	16	94 699 075
DC	Provisions for risks and charges	16	62 116 366
DD	**TOTAL FINANCIAL LIABILITIES AND SIMILAR RESSOURCES**		**156 815 441**
DF	**TOTAL STABLE RESSOURCES**		**813 775 142**
DH	Current payables HAO*	5	156 649 942
DI	Customers, advances received	7	
DJ	Trade payables	17	38 210 222
DK	Tax and social payables	18	42 668 247
DM	Other payables	19	620 000
DN	Provisions for short term risks	19	
DP	**TOTAL CURRENT LIABILITIES**		**238 148 411**
DR	Banks, financial institutions, and cash credits		
DT	**TOTAL TREASURY LIABILITIES**		0
DV	Currency conversion - Liabilities	12	2 500 925
DZ	**GENERFAL TOTAL**		**1 054 424 478**

*HAO: Non-ordinary activities or activities not related (less frequent and non-recurring) to the entity's core business.

AFROTURKISH COMPANY Ltd.

INCOME STATEMENT (ASSETS) 31/12/2020

REF	ITEMS			NOTE	FISCAL YEAR as of 31/12/2020 NET
TA	Sales of goods	**A**	+	21	110 000 000
RA	Purchase of goods		-	22	-75 000 000
RB	Changes in inventories of goods		+/-	6	5 000 000
XA	**SALES MARGIN (Sum TA to RB)**				**40 000 000**
TB	Sales of manufactured products	**B**	+	21	1 918 144 745
TC	Works and sold services	**C**	+	21	12 672 000
TD	Related Revenues	**D**	+	21	1 130 000
XB	**REVENUES (A+B+C+D)**				**2 041 946 745**
TF	Capitalized production		+	21	4 500 000
TH	Other Incomes		+	21	3 436 978
TI	Transfer of operating charges		+	12	3 233 550
RC	Purchases of raw materials and related supplies		-	22	-928 303 692
RD	Changes in inventories of raw material and related supplies		+/-	6	106 416
RE	Others purchases		-	22	-158 266 959
RF	Changes in inventories of other supplies		+/-	6	-2 414 711
RG	Transports		-	23	-329 146 672
RH	Outside services		-	24	-72 599 329
RI	Taxes		-	25	-3 135 200
RJ	Other charges		-	26	-4 263 929
XC	**ADDED VALUE (XB + RA + RB) + (sum TE to RJ)**				**485 093 197**
RK	Personnel expenses		-	27	- 218 217 093
XD	**GROSS OPERATING INCOME (XC + RK)**				**266 876 104**
RL	Allowances to amortization, provisions, and depreciations		-	3C&28	-26 511 313
XE	**OPERATING INCOME (XD + TJ + RL)**				**240 364 791**
TK	Financial and related income		+	29	7 500 000
RM	Financial and related expenses		-	29	-3 500 000
XF	**FINANCIAL INCOME (sum TK to RN)**				**4 000 000**
XG	**INCOME OF ORDINARY ACTIVITIES** (XE + XF)**				**244 364 791**
TN	Income from disposals of fixed assets		+	3D	127 119
TO	Other Income HAO*		+	30	2 000 000
RO	Book value of disposals of fixed assets		-	3D	0
XH	**INCOME OF NON-ORDINARY ACTIVITIES (sum TN to RP)**				**2 127 119**
RS	Income taxes		-		-31 102 200
XI	**NET INCOME (XG + XH + RQ + RS)**				**215 389 710**

*HAO: Non-ordinary activities or activities not related (less frequent and non-recurring) to the entity's core business.
**Ordinary activities are those from the core business (normal and habitual) of the entity.

3.2.2. Additional Information

Here bellow, we have some additional information that will help transform these SYSCOHADA compatible financial statements into FRS for LMSE compatible financial statements and therefore highlight the major differences between the two sets.

We will assume that the currency being used is the Turkish Lira for both financial statement under the SYCOAHADA and the TFRS for LMSE to avoid currency translation and other unnecessary adjustments.

1. **Financial securities:** At the end of the period, we realized the value of financial securities have increased about 500 000 TL.

2. **Receivables:** Following the effective interest method, the amortized cost of receivables is 132 000 000 TL and other receivables 32 000 000 TL.

3. **Payables:** The amortized cost value for payables from suppliers according to the effective interest method is 35 000 000 TL.

   The amortized cost value for other payables according to the effective interest method is 500 000 TL.

4. **Inventories:** The inventories include items acquired with more than a year of maturity. Under the TFRS for LMSE, an amount of 1 500 000 TL of maturity distinction using the effective interest method has been calculated.

   Current assets HAO (non-ordinary activities) of 2 140 000 TL are made up of activities that are not part of the entity's usual business activities.

5. **Employee Benefits:** Provisions for employee benefits following the actuarial method under the SYSCOHADA is estimated to 6 000 000 TL.

   The real increase in provisions for employee benefits for the period is estimated to be 3 500 000 TL following the FRS for LMSE.

6. **Investment Property:** Investment property of the entity account for 20% of sites and 30% of buildings.

7. **Goodwill:** The goodwill has an unlimited useful life and therefore amortized over 10 years following the FRS for LMSE rules.
8. **Government grant/Investment grant:** Government grant have been received by the company as a support for its long-term investment operations 2 000 000 TL. There is no future obligation to be met by the entity related to this grant.
9. **Currency Translation:** Currency Conversion – Asset presented in the SYSCOHADA Balance Sheet are potential losses from foreign currency translation of receivable and related items 15 000 000 TL.

   Currency conversion – Liabilities presented in the SYSCOHADA Balance Sheet are potential gains from foreign currency translation of payables 2 500 925 TL.
10. **Deferred taxes:** Deferred taxes are calculated following an income tax rate of 20%.

3.2.3. Necessary Adjustments and Comments on the Differences

In the following lines, there will be adjustments of some accounts from the above example of financial statements prepared according the SYSCOHADA. These adjustments will help ensure a proper translation of these statements into their equivalent in the FRS for LMSE. The chart of accounts used for these adjustments is the chart of account draft published in 2018 by the POA/KGK.

1. Financial securities:

Following the prudence principle, the SYSCOHADA recognizes security value appreciation when they are sold and until then, only losses recognized (AUDCIF & SYSCOHADA, 2017: 681). However, under the FRS for LMSE both gains and losses resulting from value appreciation of security assets should be recognized "*Gains on Financial Investments*" or "*Losses from Financial Investments*" (FRS for LMSE, 2019: pr.9.20).

Accounting Record Related to Financial Securities Adjustment

110 *Financial Investments*		500 000	
	665 *Gains on Financial Investments*		500 000
Adjustment entry following the FRS for LMSE.			

2. Receivables:

Under the FRS for LMSE, capital called for payment, receivables, and payables with 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. However, receivables, except the subscribed capital called for payment, and payables, with a period longer than one year between the date of initial recognition and the date to be received or paid, are measured at the amortized cost using the effective interest method (FRS for LMSE, 2019: pr.9.8).

The SYSCOHADA does not mention the use of the effective interest method for such payables and receivables and therefore differ from the FRS for LMSE on this topic.

Accounting Record Related to Adjustment for Receivables

650* Maturity Difference Expenses Related to Trade Payables		10 446 828	
	128 Deferred Maturity Income		10 446 828
Adjustment for maturity difference: (136 261 301+ 38 185 527 = 174 446 828) (174 446 828 – 132 000 000 - 32 000 000 = **10 446 828**)			

*In the following period, this account should be closed by transferring it balance to the "*690 Continued Operations Period Profit or Loss*" account.

3. Payables:

Under the FRS for LMSE, following the IFRS 9, interest received from trade receivables and payables which are measured at the amortized cost following the effective interest method must be recognized in the items "*Other Gains from Operating Activities*" or "*Other Losses from Operating Activities*" in the Statement of Profit or Loss. Also, the interest amount calculated following the effective interest method as for other receivables and payables must be recognized in the items "*Interest, Dividend etc. Revenues*" or "*Interest, etc. Expenses*" (FRS for LMSE, 2019: pr.9.9).

Again, the SYSCOHADA does not mention the use of the effective interest method for such payables and receivables and therefore differ from the FRS for LMSE on the topic.

Accounting Record Related to Adjustment for Payables

	/		
	328 Deferred Maturity Difference Expenses (-)	3 330 222	
	640* Maturity Difference Income Related to Operating Receivables		3 330 222
	Adjustment for maturity difference: (38 210 222 + 620 000 = 38 830 222) (38 830 222 – 35 000 000 – 500 000 = **3 330 222**)		

*In the following period, this account should be closed by transferring it to the "*650 Expenses Related to Maturity Difference from Trade Payables and Foreign Exchange Losses Related to Main Activities (-)"* account.

4. Inventories:

According to the FRS for LMSE, the effective interest method should be used to calculate the maturity distinction for inventories purchased in payment over more than a year (FRS for LMSE, 2019: pr.6.8). This is not the case under the SYSCOHADA which does not mention the use of the effective interest method for similar operations.

The SYSCOHADA apply a maturity distinction for each period as stated in its 59th article *‘‘The income of each reporting period is independent of the previous and the following periods. To determine it, all related events and operations, only those, must be imputed to the period.’’* (AUDCIF & SYSCOHADA, 2017: 42).

As regards to impairment of inventories, both the SYSCOHADA and the FRS for LMSE are in line with the IAS 2 and use the same valuation method for the purpose of impairment assessment at the end of each given fiscal year and therefore there is no difference of treatment between the two accounting sets.

Accounting Record Related to Adjustment for Inventories

	/		
	650 Maturity Difference Expenses Related to Trade Payables	1 500 000	
	153 Goods		1 500 000
	Adjustment for maturity difference		

Inventories (**2 140 000 TL)** classified as HAO (non-ordinary activities) under the SYSCOHADA will be classifies as ‘‘*Other Current Assets*’’ in the FRS for LMSE Statement of Financial Position.

5. Employee Benefits

Under the SYSCOHADA, employee benefits are processed following the IAS 19 *Employee Benefits.* Therefore, following the SYSCOHADA, entities must assess and recognize retirement commitments as provisions and included in liabilities followed by a mention it in the Notes. Additionally, PIEs are required to measure pension commitments using the actuarial method. However, other entities are allowed to choose whether to apply the actuarial or the simplified method which disregard demographic and/or financial assumptions (AUDCIF & SYSCOHADA, 2017: 764). Finally, the SYSCOHADA recommends that entities belonging to a group whose consolidated financial statements follow the IFRS standards, to use the actuarial method as the valuation method for their individual accounts in order to reduce consolidation restatements (AUDCIF & SYSCOHADA, 2017: 764).

On the contrary, under the FRS for LMSE, for each reporting period, severance indemnity obligations for employees should be estimated, and indemnity obligations increases in the current period arising from this estimation are calculated and expensed (FRS for LMSE, 2019: pr.19-17). The FRS for LMSE does not include the use of the actuarial method as an option for estimating provisions related to employee benefits.

Accounting Record Related to Adjustment for Employee Benefits

/		
472 Severance Pay Provisions	2 500 000	
632 General and administrative expenses*		2 500 000
Adjustment of provisions (6 000 000 – 3 500 000 = **2 500 000**)		

*Here, there will be a decrease in provisions related to severance pay as the SYSCOHADA overestimated this amount. Therefore, the general and administrative expenses are reduced.

6. Investment Property

Both the SYSCOHADA and the FRS for LMSE are in some extent in line with the IAS 40 as regard of accounting processing of investment properties (AUDCIF & SYSCOHADA, 2017: 646; Cavlak and Ataman, 2017: 161).

Both sets have very similar definition, and both use the cost method for initial recognition of asset classified as investment properties (AUDCIF & SYSCOHADA, 2017: 650–652; FRS for LMSE, 2019: pr.13.5-13.7).

However, unlike the FRS for LMSE the SYSCOHADA do not use the fair value measurement method for subsequent measurement of investment properties. Also, as regard to the presentation of investment properties, in the Statement of Financial Position under the FRS for LSME, such assets are classified separately in *Investment Property* item while in the SYSCOHADA such properties are combined under the item line *Sites*, *Buildings* with a mention ‘‘*including investment property*’’ if the entity has one (AUDCIF & SYSCOHADA, 2017: 653).

581 362 459 x 30 % = 174 408 738
38 673 950 x 20 % = 7 734 790
182 143 528 --------> The total amount of investment properties only.

7. Goodwill

In the SYSCOHADA, a goodwill with indefinite useful life is not subject to depreciation (AUDCIF & SYSCOHADA, 2017: 575).

Under the FRS for LMSE however, once the useful life in indefinite, an intangible asset should be amortized over a period of 5 to 10 years (FRS for LMSE, 2019: pr.14.33).

Accounting Record Related to Adjustment of Goodwill

	/		
	770 General and administrative expenses	160 000	
	268 Accumulated depreciation		160 000
	(1 600 000 / 10 years = **160 000**)		

8. Government grant/Investment grant

Both the SYSCOHADA and the FRS for LMSE define quite similarly government grants as public assistance characterized by transfers of resources to an entity in exchange of a compliance with certain conditions related to its operating activities (AUDCIF & SYSCOHADA, 2017: 715; FRS for LMSE, 2019: pr.16.2). However, the two accounting sets completely differ on recognition and classification of such grants.

First, on one hand the SYSCOHADA offer a classification of government grants following the nature of the grant and therefore, we have *investment grants* aimed at acquiring or creating fixed assets or to finance long-term activities; *operating grants* aimed at compensating for the insufficiency of some operating income or some operating expenses; *equilibrium grants*, aimed at compensating in total or in part the loss that an entity would have incurred if this grant had not been granted to it (AUDCIF & SYSCOHADA, 2017: 715–716)**.** On the other hand, the FRS for LMSE does not offer any classification of such grants.

Second, the SYSCOHADA use both the equity and income approach to recognize government grant following the nature of the grant. *Investment grants* are recognized as an increase in equity on the date the grant is given. Such grant will be incorporated in profit and loss over the period of useful life (in case of acquisition of amortizable asset) or over a period of 10 years for non-amortizable asset (AUDCIF & SYSCOHADA, 2017: 717). Other types of grants are recognized as an income to be included in the profit or loss for the period in which the grant is given (AUDCIF & SYSCOHADA, 2017: 718–719). However, in the FRS for LMSE, grants recognition depends on whether there is future condition that should be met or not and whether such conditions have been fulfilled or not. Once fulfilled and the grant received, it should be recognized in profit or loss and once conditions are yet to be met, grants should be recognized as "*Deferred income*" in the Statement of Financial Position (FRS for LMSE, 2019: pr.16.7).

Accounting Record Related to Adjustment of Government Grant

	/		
2.. Fixed Assets *		2 000 000	
	644** Other Miscellaneous Income and Earnings from Operating Activities		2 000 000
Adjustment for government grants			

*We assume that the amount here is already in the entity's fixed assets and therefore we only increase the profit resulting from the government investment grant without increasing the assets again.
**At the closing date, this account should be closed by transferring it balance to the "*690 Continued Operations Period Profit or Loss*" account.

9. Effect of Currency Translation

Under the SYSCOHADA, currency translation related to payables and receivables must be recognized in the balance sheet (AUDCIF & SYSCOHADA, 2017: 787). Under the FRS for LMSE, losses and gains related to currency translations are recognized in profit and loss both for monetary items and non-monetary items except for gains or losses on property, plant and equipment which are measured at their revalued amount. These losses and gains are recognized as *"Other Operating Expenses" "Other Operating Income"* (FRS for LMSE, 2019: pr.20.13-20.15-20.17).

Accounting Record Related to Adjustment of Currency Translation

	/		
	650 Foreign Exchange Losses Related to Main Operations (-)*	15 000 000	
	479 Provisions**		15 000 000
	Adjustment for currency translation**		

*This indicates a decrease of receivables - a loss.
**This chart number is used as default because there is not an exact corresponding account as in the SYSCOHADA in other to balance the account. Also, this amount has already been deduced from the annual net income and receivables. Therefore, only provisions will be adjusted in the Statement of Financial Position.

	/		
	320 Payables*	2 500 925	
	644** Other Miscellaneous Income and Earnings from Operating Activities		2 500 925
	Adjustment for currency translation*		

*This is an indication of decrease in payables - a gain.
**Contrary to the previous operation, this amount here increases the annual net income but do not decrease the payables as they have already been adjusted in the SYSCOHADA.

Total losses from currency translation related to receivables and payables:

15 000 000 – 2 500 925 = <u>12 499 075</u>

10. Deferred taxes

Under the FRS for LMSE, a deferred tax is defined as 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. Furthermore, under these standards, deferred tax asset or deferred tax liability must be recognized in the financial statements for taxes recoverable and payable in future periods as a result of past transactions and events. Such taxes arise from the differences between the carrying amounts of assets and liabilities recognized in the Statement of Financial Position and their tax base, and the carryforward of unused accumulated loss and unused tax credits (FRS for LMSE, 2019: pr.23.12-23.13). However, only large entities are required to present deferred tax amounts in their consolidated and separate financial statements, medium entities should present deferred tax amounts solely when they must prepare consolidated financial statements and, for their separate financial statements it is discretionary (FRS for LMSE, 2019: pr.23.3).

The SYSCOHADA on the contrary does not mention the presentation of differed taxes for individual financial statement regardless the size of the entity. Therefore, it differs from the FRS for LMSE on this.

Table 21: Table of Calculation of the Deferred Tax Amount

Additional Information	Items	Deferred Tax Asset	Deferred Tax Liability
1	Gains on Financial Investments		500 000
2	Maturity Difference for Receivables	10 446 828	
3	Maturity Difference for Payables		3 330 222
4	Maturity Difference for Inventories	1 500 000	
5	Provisions for Employee Benefits		2 500 000
6	Investment Property	*No Deferred Tax*	
7	Goodwill Depreciation	160 000	
8	Grants Received		2 000 000

9a	Losses from Currency Translation	15 000 000	
9b	Gains from Currency Translation		2 500 925
TOTAL		**27 106 828**	**10 831 147**
TOTAL Deferred Tax Asset*		**5 421 366**	
TOTAL Deferred Tax Liability**			**2 166 229**

* 27 106 828 x 0.2 **= 5 421 366**
** 10 831 147 x 0.2 = **2 166 229**

Accounting Record Related to Arising Deferred Taxes

	/		
	289 Deferred Tax Asset	5 421 366	
	489 Deferred Tax Liability		2 166 229
	692 Continuing Operations Deferred Tax Income - Expense Effect		3 255 136
	Deferred Tax Adjustments		

NB: The income tax rate is 20 %.

3.2.4. Financial statements prepared following the FRS for LMSE

From the additional information given above, here bellow we have the Statement of Financial Position and the Statement of Profit and Loss prepared following the FRS for LMSE.

3.2.4.1. Statement of Financial Position Prepared Following the FRS for LMSE

Considering the additional information given above, here bellow we the restate Statement of Financial Position following the FRS for LMSE accounting rules. The statement is presented in two parts, the assets, and liabilities.

AFROTURKISH COMPANY Ltd.

STATEMENT OF FINANCIAL POSITION 31/12/2020

	Note	31.12.2020
ASSETS		
Current Assets		
- Cash and Cash Equivalents		103 097 127
- Financial Investments		20 500 000
- Receivables		132 000 000
- Other Receivables		32 000 000
- Inventories		17 917 750
- Goods		*17 060 138*
- Given Advances		*857 612*
- Paid Expenses		
- Paid Taxes and Related		
- Other Current Assets		2 140 000
TOTAL CURRENT ASSETS		**307 654 877**
Fixed Assets		
- Receivables		
- Other Receivables		
- Financial Investments		4 419 790
- Investments Valued by the Equity Method		
- Investment Properties		182 143 528
- Tangible Assets		509 109 455
- Land and Terrain		*30 939 160*
- Buildings		*406 953 721*
- Plant, Machinery and Devices		*47 406 574*
- Transport material		*21 810 000*
- Fixtures		*2 000 000*
- Intangible Assets		24 490 000
- Development Costs		
- Intangible Rights		*3 050 000*
- Goodwill		*1 440 000*
- Other Intangible Assets		
- Given Advances		*20 000 000*
- Paid Expenses		
- Deferred Tax Asset		5 421 366
- Other Fixed Assets		
TOTAL FIXED ASSETS		**725 584 139**
TOTAL ASSETS		**1 033 239 016**

AFROTURKISH COMPANY Ltd.

STATEMENT OF FINANCIAL POSITION 31/12/2020

	Note	31.12.2020
RESOURCES		
Short-Term Liabilities		
- Financial Liabilities		
- Trade Payables		34 880 000
- Other Payables		157 269 942
- Debts to Partners		
- Debts to Other Stakeholders		*157 269 942*
- Received Advances		
- Taxes and Similar Liabilities to Be Paid		42 668 247
- Short-Term Provisions		
- Other Short-Term Provisions		
- Other Short-Term Liabilities		
TOTAL SHORT-TERM LIABILITIES		**234 818 189**
Long-Term Liabilities		
- Financial Liabilities		94 699 075
- Trade Payables		
- Other Payables		
- Advances Received		
- Taxes and Similar Liabilities to Be Paid		
- Long-Term Provisions		44 616 366
- Severance Provisions		*59 616 366*
- Other Long-Term Provisions		*(15 000 000)*
- Deferred Tax Liability		2 166 229
- Other Long-Term Liabilities		
TOTAL LONG-TERM LIABILITIES		**141 481 670**
Equity		
- Paid Capital		300 000 000
- Capital		*400 000 000*
- Unpaid Capital		*(100 000 000)*
- Repurchased Shares		
- Premiums on Shares		
- Revaluation Reserve		3 500 000
- Foreign Currency Translation Differences		
- Retained Earnings		136 069 991
- Legal Retained Earnings		*20 000 000*
- Other Retained Earnings		*116 069 991*
- Past Years Profits/Losses		
- Net Profit for the Period		217 369 165
TOTAL EQUITY		**656 939 156**
TOTAL RESOURCES		**1 033 239 016**

Remarks

The classification order of assets and liabilities in the SYSCOHADA and the FRS for LMSE differ from one another. On one hand, the SYSCOHADA classification method of assets goes from the least liquid to the most liquid. As for liabilities, the classification is based on their payability over time. That is to say, they are classified from the least due to the most due. On the other hand, the FRS for LMSE use the opposite classification method of assets and liabilities. Also, in the SYSCOHADA, the Balance Sheet shows the gross values of assets, the depreciation, impairment, and the net value for each item. Such details are not given in the Statement of Financial Position of the FRS for LMSE.

Furthermore, the subtotal of ‘‘*Current Assets*’’ in the Statement of Financial Position (FRS for LMSE) includes Cash and Cash equivalent while the Balance Sheet (SYSCOHADA) they are two separate subtotals. Additionally, in the SYSCOHADA, *Investment Properties* are included in the subtotal of tangible assets while in the FRS for LMSE they are presented separately. Also, *Paid or Given Advances* related to tangible and intangible assets are included to the subtotal of each one in the Statement of Financial Position of the FRS for LMSE. On the contrary, in the SYSCOHADA Balance Sheet, there is a separate subtotal that presents all advances regardless of the nature of the asset.

The SYSCOHADA Balance Sheet has a line for items qualified as non-ordinary (Hors Activités Ordinaires- HAO) both in assets and liabilities. In the Statement of Financial Position of the FRS for LMSE such assets are included in ‘‘*Other Payables*’’.

Also, ‘‘*Sort term Liabilities’’* in the FRS for LMSE are referred as *‘‘Current Resources/Liabilities’’* in the SYSCOHADA and ‘‘*Long-Term Liabilities*’’ is referred as *Stable Resources/Liabilities*’’. Additionally, the SYSCOHADA classify ‘‘*Retained Earnings* into two main categories. ‘‘*Unavailable Retained Earnings*’’ which include legal and statutory retained earnings and ‘‘*Free Retained Earnings*’’ for all other types. The Statement of Financial Position of the FRS for LMSE however separates each one from another in a detailed way.

Finally, in the SYSCOHADA Balance Sheet, there is a ‘‘*Regulated Provisions*’’ item which presents depreciation of assets using the degressive method and other purely tax-based regulations (AUDCIF & SYSCOHADA, 2017: 203–204). These provisions have a characteristic of retained earnings in the SYSCOHADA (AUDCIF & SYSCOHADA, 2017: 709). In the FRS for LMSE, there is no such item in the Statement of Financial Position. Therefore, the amount of 40 000 000 TL which represents regulated provisions in the Balance Sheet under the SYSCOHADA has not been considered as such in the FRS for LMSE, instead, it was classified as ‘‘*Other Retained Earnings*’’.

3.2.4.2.Statement of Profit and Loss Prepared Following the FRS for LMSE

Following the additional information given above and the Statement of Financial Position, here bellow we have the restated Statement of Profit and Loss according to the FRS for LMSE.

AFROTURKISH COMPANY Ltd.

STATEMENT OF PROFIT AND LOSS 31/12/2020

	Note	31.12.2020
Sales Revenue		2 041 946 745
Cost of Sales (-)		(75 000 000)
Gross Income		**1 966 946 745**
Research and Development Expenses (-)		
Marketing Expenses (-)		
General Administrative Expenses (-)		(1 740 518 898)
Other Operating Incomes		19 607 166
- Rediscount Interest Income		*3 330 222*
Other Operating Expenses (-)		(10 446 828)
- Provision Expenses		
- Rediscount Interest Expenses		*(10 446 828)*
Operating Income		**235 588 185**
Income from Other Activities		4 127 119
- Income from disposals of Tangible and Intangible Assets		*127 119*
- Other Income		*4 000 000*
Expenses from Other Activities (-)		
- Other Expenses		
Financial Income		10 500 925
- Interest, Dividend, etc. Income		
- Exchange Rate Income		*2 500 925*
- Financial Investments Value Increase Gains		*500 000*
- Other Financial Income		*7 500 000*
Financial Expenses (-)		(5 000 000)
- Interest, etc. Expenses		*(1 500 000)*

- *Exchange Rate Expenses*	
- *Other Financial Expenses*	*(3 500 000)*
INCOME OF THE PERIOD	**245 216 229**
Tax Expense/Income	(27 847 064)
- *Period Tax Expenses (-)*	*(31 102 200)*
- *Deferred Tax Income*	*3 255 136*
NET INCOME OF THE PERIOD	**217 369 165**

Remarks

Subtotals in the SYSCOHADA Income Statement are quite different from those in the FRS for LMSE Statement of Financial Position.

In the SYSCOHADA, revenues are shown separately from sales of goods and manufactures products to services while in the FRS for LMSE all revenues are combined in a single line of item. The SYSCOHADA Income Statements seems more detailed and the Statement of Profit and Loss of the FRS for LMSE is more concentrated and therefore gives less detailed information about incomes and expenses.

Finally, in the FRS for LMSE, the Statement of Profit and Loss does not include items for non-ordinary activities as it is in the SYSCOHADA. Instead, those values items are included in the ‘‘*Income from Other Activities*.’’

CONCLUSION

In the last decade, the Turkey-Africa relationship has been growing at a very rapid pace covering broad areas from military and economic cooperation to trade agreements and the trend will likely last for the years to come. From a business point of view, today there is an increasing presence of Turkish companies on the African continent. This ever-growing interest leads to the necessity of understanding the local business environment including the accounting regulations. This study, therefore, has been aimed to highlight the main differences between the Turkish accounting set for large and medium-sized entities (FRS for LMSE) and the SYSCOHADA which is the accounting set for 17 sub-Saharan African Countries from West to Central Africa.

The OHADA (Organization for the Harmonization of Business Law in Africa) is an African organization which aims to provide a legal framework that enhance regional integration but also to serve as a tool for economic growth. This purpose has led to 10 uniform laws including the accounting law (AUDCIF) and the OHADA GAAP or SYSCOHADA being adopted by the 17 member countries of the organization. The SYSCOHADA was first introduced in 2001 after the failure of earlier attempts to harmonize accounting practices. In 2017, the OHADA member countries decided to both revise the OHADA accounting system by making it more in line with the IASs/IFRSs but also to adopt those standards for listed companies and publicly traded ones. Despite the new revision and openness towards the IASs/IFRSs, the SYSCOHADA still remains mainly a legal based accounting set.

In this study, we can see that in the table of chapters inspired by the IASs/IFRSs, many chapters related to specific operations addressed by the SYSOCHADA are not directly related to the IASs/IFRSs. Also, many IASs/IFRSs are not related to the SYSCOHADA chapters either. However, although many SYSOCHADA chapters and IASs/IFRSs are not directly related to each other, the OHADA accounting conceptual framework have lately been very advanced towards a greater compliancy with the IASs/IFRS. Furthermore, it is not too different from the IASs/IFRSs in terms of financial vision and information that should be disclosed in the financial statements (Degos and Souleymanou, 2018: 7)**.**

Looking at the Turkish accounting system, we can see that it has evolved from a continental based approach (legal/tax based) to a more Anglo-Saxon (standards/market based) oriented accounting practices. Furthermore, the FRS for LMSE was prepared to answer a specific need related to practical application of accounting standards for some category of entities especially large and medium ones. The FRS for LMSE purpose was to make accounting standards more accessible for entities not under the obligation to comply with the IAS/IFRS. That would therefore help lower the burden of complexity of international financial standards for these entities but also, ensure at the same time a greater compatibility. In addition, being inspired by the IAS/IFRS and in line with the EU directives on accounting, the FRS for LMSE is an up to date set that will allow an accurate and truthful presentation of financial statements.

From this study, it can be understood that the SYSCOHADA and the FRS for LMSE although different on various subjects share major similarities as well. The first significant difference difference between the SYSCOHADA and the FRS for LMSE is related to the number of countries in which these sets are used. The SYSCOHADA is used in 17 African countries all members of the OHADA and the FRS for LMSE is only used in Turkey. Second, the SYSCOHADA unlike the FRS for LMSE is more a rule/tax-based regulation. However, the latest revision of the set has resulted in the harmonization with the IAS/IFRS on several issues and topics. Also, in the SYSCOHADA countries, the IAS/IFRS are now required for public entities. But these entities remain however subject to the SYSCOHADA as well. This step taking by the SYSCOHADA regulators was aimed at making the local set more in line with international accounting. Furthermore, in the OHADA countries, unlike in Turkey where there are several sets of accounting, the SYSCOHADA is the only set for all entities with two levels of presentation (*the Normal System (Système Normal)* used for any entity that does not meet the definition of small entities and the *Minimal Treasury/Cash System (Sytème Minimal de trésorérie*) for small entities) depending on the size of an entity. It only excludes entities under specific local regulations such as banks and other financial institutions.

Third, another difference is that the SYSCOHADA has an extensive set of information on several topics including the chart of accounts and how each account should operate. This leads to a very dense document of about 1200 pages long. The FRS for LMSE however follows a standard-based approach and therefore only gives the main directives as regard to accounting practices. The whole set is only 200 pages long and does not include the chart of accounts.

As regards to required financial statements to be presented for each fiscal year, there is a slight difference between the SYSCOHADA and the FRS for LMSE. In the SYSCOHADA the Statement of Change in Equity is not required for individual financial statements. The SYSCOHADA also differ from the FRS for LMSE in the way that for entities with more than 500 employees the SYSCOHADA requires entities to provide information on how they are considering the social and environmental impacts of their activity and, also their social commitments in favor of sustainable development (AUDCIF & SYSCOHADA, 2017: 858). The FRS for LMSE does not have such requirements. This environmental consciousness included in the SYSCOHADA might be a very interesting point to be included in the FRS for LMSE.

Other main areas of differences are related to accounting processing of financial securities, receivables, payables, inventories, employee benefits, goodwill, government grant, currency translation, and deferred taxes. In the SYSCOHADA, there is no maturity distinction in individual financial statements related to receivables, payables, and inventories as it is in the FRS for LMSE. Thus, the use of the effective interest method for such items is not mentioned except for consolidated financial statements. Therefore, differ from the FRS for LMSE on this topic. In the FRS for LMSE, the effective interest method should be used to calculate maturity distinction for receivables, payables, and inventories. Also, following the prudence principle, the SYSCOHADA recognizes security value appreciation when they are sold and until then, only losses should be recognized (AUDCIF & SYSCOHADA, 2017: 681). The FRS for LMSE on the contrary recognizes both gains and losses resulting from value appreciation of security assets regardless of whether they are sold or not (FRS for LMSE, 2019: pr.9.20). Furthermore, as regard to employee benefits, in the SYSCOHADA, PIEs are required to measure pension commitments using the actuarial method. However, other entities are also allowed to choose whether to apply the actuarial or the simplified method which disregard demographic and/or financial assumptions (AUDCIF & SYSCOHADA, 2017: 764). The FRS for LMSE does not include the use of the actuarial method as an option for estimating provisions related to employee benefits. Also, in the SYSCOHADA unlike the FRS for LMSE, goodwill is only depreciated once it has a limited useful life (AUDCIF &

SYSCOHADA, 2017: 575). The goodwill is also subject to impairment test in the SYSCOHADA while such requirement does not apply in the FRS for LMSE. Another difference related to government grants is that the SYSCOHADA offer a classification of such grants following their nature. Therefore, we have *investment grants* aimed at acquiring or creating fixed assets or to finance long-term activities; *operating grants* aimed at compensating for the insufficiency of some operating income or some operating expenses; *equilibrium grants*, aimed at compensating in total or in part the loss that an entity would have incurred if this grant had not been granted to it (AUDCIF & SYSCOHADA, 2017: 715–716)**. T**he FRS for LMSE does not offer any classification of grants. In addition, the FRS for LMSE recognizes government grant in the profit and loss while the SYSCOHADA recognize it in both the Balance Sheet and the Income statement following their nature. As for currency translation differences from receivables and payables, the SYSCOHADA recognizes them in the Balance Sheet whereas the FRS for LMSE recognizes them in the profit and loss. Deferred taxes are only presented in consolidated financial statements in the SYSCOHADA while in the FRS for LMSE only medium entities are exempted from presenting them.

All these differences lead to having financial statements with different financial information. In the FRS for LMSE adjusted financial statement, we see that the annual net income has increased by **1 979 455 TL**. This net income may include some gains related to receivable and payables that have not been yet settled resulting from currency translation for example. In the SYSCOHADA, to avoid such scenario, the prudence convention should be used, and incomes are recognized only once they are certain but on the contrary losses must be recognized even if uncertain. Also, assets and liabilities in the FRS for LMSE have decreased by **21 185 462 TL**. This decrease is mostly related to the exclusion of currency translation potential losses in assets and potential gains in liabilities. The decrease also includes the government grant received for long-term investment which was restated and put in the Statement of Profit and Loss in the FRS for LMSE.

Finally, despite a wide range of differences between the two accounting sets, they still share some major similarities mainly due to their proximity in some way to the IAS/IFRS.

This study by highlighting the main differences between the SYSCOHADA and the FRS for LMSE will help to fill the gap in the literature related to the comparative analysis between the two accounting sets. Also, the study will be a major academic contribution due to its newness and therefore offer learning opportunities to those interested in understanding the two accounting systems. Furthermore, through this study, it will be possible for people doing business in those countries to read and understand financial statements prepared under both systems without any major difficulty.

Ultimately, it worth mentioning that our study was based on the 2017 version of the FRS for LMSE. A new version of this set has been introduced in mars 2021. This new version is aimed at providing more clarity and making improvements to the first version. One of the most significant updates in this set is related to the definition criteria of large and medium entities. According to the new criteria, large entities should have *200 million Turkish Lira* in total assets and *400 million Turkish Lira* in annual revenue instead of 75 *million Turkish Lira* and *150 million Turkish Lira* for annual revenue initially (KGK, 2021).

As inherent to the nature of accounting, which is bound to evolve over time, future changes could be undoubtedly expected. Therefore, studies exploring such changes in the future will be necessary.

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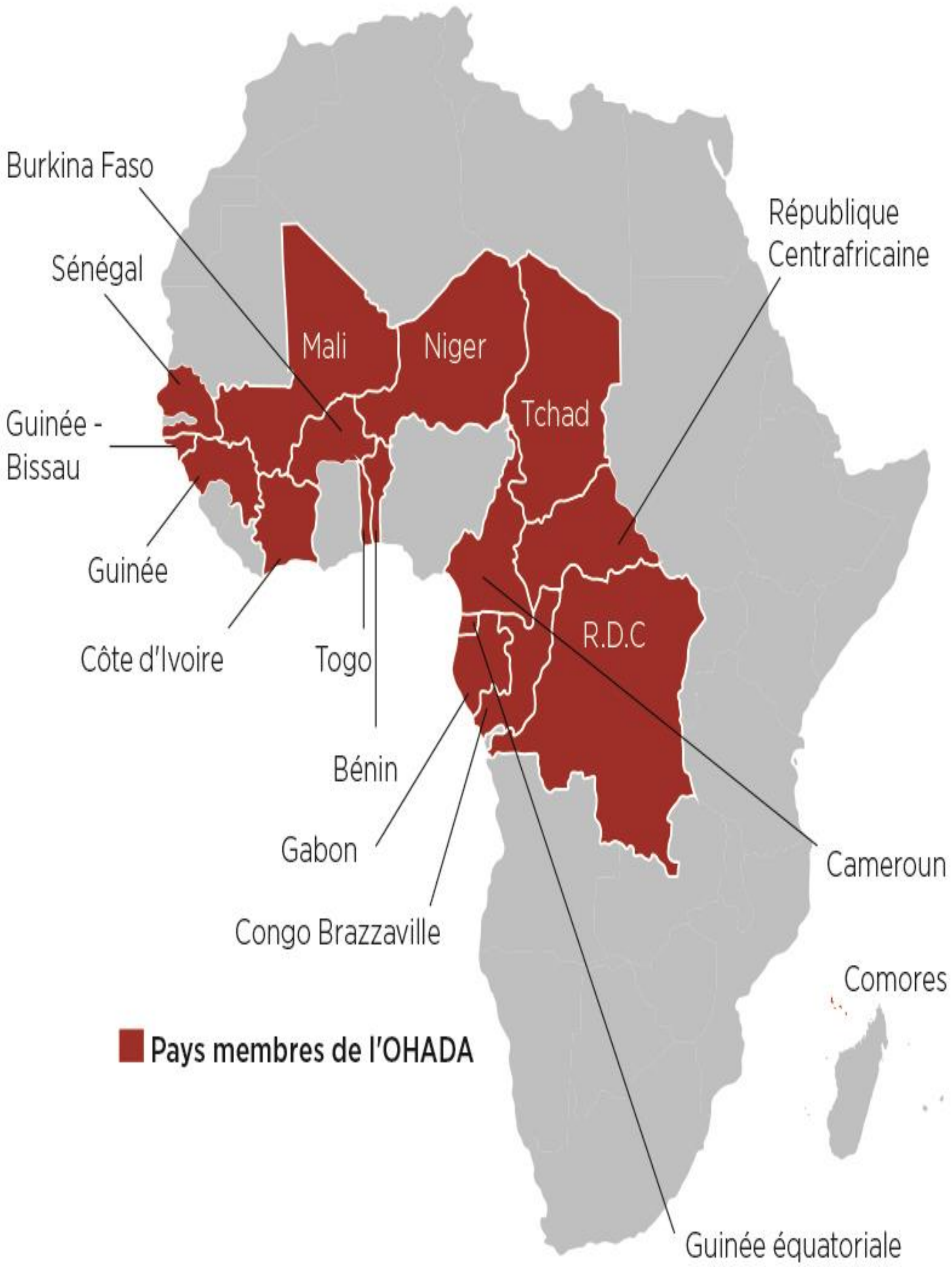
APPENDIX

Appendix 1: OHADA member countries



Appendix 2: Landscape Balance sheet format of the SYSCOHADA normal system

REF	ASSETS	Note	FISCAL YEAR as of 31/12/N			FISCAL YEAR as of 31/12/N-1	REF	LIABILITIES	Note	FISCAL YEAR as of 31/12/N	FISCAL YEAR as of 31/12/N-1
			GROSS	AMOR AND DEPRE	NET	NET				NET	NET
AD	**INTANGIBLE ASSETS**	3					CA	Capital	13		
AF	Patents, licenses, software, and similar rights						CB	Uncalled capital contributors (-)	13		
AG	Goodwill, leasehold rights						CD	Revaluation differences	3e		
AI	**TANGIBLE ASSETS**						CE	Unavailable reserves	14		
AJ	Sites (1) (1) Including Investment						CF	Retained earnings (+/-)	14		
AK	Buildings (1) (1) Including Investment						CG	Annual net income (profit + or loss -)			
AL	Fixtures, fittings, and installations						CH	Subvention grants	15		
AM	Equipment, furniture, and biological assets						CJ	Regulated provisions	15		
AN	Transport material						**CP**	**TOTAL EQUITY AND SIMILAR RESSOURCES**			
AP	ADVANCES AND DOWN PAYMENTS ON FIXED ASSETS	3					DA	Borrowings and miscellaneous financial debts	16		
AQ	**FINANCIAL FIXED ASSETS**	4					DC	Provisions for risks and charges	16		
AS	Other financial fixed assets						**DD**	**TOTAL FINANCIAL LIABILITIES AND SIMILAR RESSOURCES**			
AZ	**TOTAL FIXED ASSETS**						**DF**	**TOTAL STABLE RESSOURCES**			
BA	CURRENT ASSETS HAO*	5					DH	Current payables HAO*	5		
BB	INVENTORIES AND WORK-IN-PROGRESS	6					DI	Customers, advances received	7		
BG	RECEIVABLES AND RELATED						DJ	Trade suppliers	17		
BH	Suppliers advances paid	17					DK	Tax and social payables	18		
BI	Clients	7					DM	Other payables	19		
BJ	Other receivables	8					DN	Provisions for short term risks	19		
BK	**TOTAL CURRENT ASSETS**						**DP**	**TOTAL CURRENT LIABILITIES**			
BS	Banques, chèques postaux, caisse et assimilés	11					DR	Banks, financial institutions, and cash credits			
BT	**TOTAL CASH ASSETS**						**DT**	**TOTAL TREAEARY LIABILITIES**			
BU	Currency conversion - Asset	12					DV	Currency conversion - Liabilities	12		
BZ	**GENERFAL TOTAL**						**DZ**	**GENERFAL TOTAL**			

Appendix 3: The SYSCOHADA Consolidated Balance Sheet model

ASSETS

ASSETS	Note	FISCAL YEAR as of 31/12/N			FISCAL YEAR as of 31/12/N-1
		GROSS	AMOR AND DEPRE	NET	NET
Intangible assets					
Goodwill					
Other intangible assets					
Tangible assets (1) and (2)					
(1) Include net investment property					
(2) Include net capital lease					
Advances and down payments on fixed assets					
Financial assets					
Equity in Affiliates					
Participation interests and underlying receivables					
Loans and other financial assets					
Deferred tax assets					
TOTAL FIXED ASSETS					
Stock					
Receivables and other similar assets					
Clients					
Other receivables					
TOTAL CURRENT ASSETS					
TOTAL CASH ASSETS					
GENERFAL TOTAL					

Appendix 4: The SYSCOHADA Consolidated Balance Sheet model

LIABILITIES

LIABILITIES	**Note**	**FISCAL YEAR as of 31/12/N**	**FISCAL YEAR as of 31/12/N-1**
		NET	**NET**
Capital			
Consolidated premiums and retained earnings			
Exchange differential			
Net income (share of the consolidating entity)			
Other equity			
Share of the consolidating entity			
Share of the minority interest			
TOTAL EQUITY OF THE GROUP			
Borrowings and financial liabilities			
Capital lease debt			
Provisions for risks and charges			
Deferred tax assets			
TOTAL FINANCIAL LIABILITIES AND SIMILAR RESSOURCES			
TOTAL STABLE RESSOURCES			
Trade payables			
Other payables			
TOTAL CURRENT LIABILITIES			
TOTAL TREASURYRY LIABILITIES			
Currency conversion - Liabilities			
GENERFAL TOTAL			

Appendix 5: The SYSCOHADA Consolidated Income Statement model

ITEMS		NOTE	FISCAL YEAR as of 31/12/N	FISCAL YEAR as of 31/12/N-1
			NET	NET
Sales of goods	+			
Sale of finished goods	+			
Works and sold services	+			
Incidental income	+			
SALES REVENUE				
Other income	+			
Consumed purchases	-			
External services	-			
Taxes	-			
Other expenses	-			
ADDED VALLUE				
Personnel expenses	-			
GROSS OPERATING PROFIT				
Reversals of amortization, provisions, and depreciations	+			
Allowances to amortization, provisions, and depreciations	-			
OPERATING INCOME (A)				
Financial revenue	+			
Financial expenses	-			
FINANCIAL INCOME (B)				
INCOME OF ORDINARY (C=A+B)				
Income from disposals of fixed assets	+			
Revenue HAO	+			
Expenses HAO	-			
INCOME OF NON-ORDINARY ACTIVITIES (D)				
INCOME BEFORE TAXES (E = C+D)				
Income taxes	-			
Deffered taxes	+/-			
Income of consolidated entities				
Share in the net incomes of consolidated entities following the equity method				
Net income of the group				
Minority Share				
Share of the parent entity				
Net income per share				
Basic earnings per share				
Diluted earnings per share				

Appendix 6: The SYSCOHADA Consolidated Statement of Cash Flows model

ITEMS		NOTE	FISCAL YEAR as of 31/12/N	FISCAL YEAR as of 31/12/N-1
Net cash and cash equivalents as of January 1	**A**			
Cash flow from operating activities				
Overall financing capacity (CAFG)				
- Changes in inventories				
- Changes in receivables and other similar assets				
+ Changes in current liabilities				
Variation in working capital for operating activities				
Cash flow from operating activities	**B**			
Cash flows from investing activities				
- Outflows related to purchases of intangible assets				
- Outflows related to purchases of tangible assets				
- Outflows related to purchases of financial assets				
+ Inflows related to disposal of intangible and tangible assets				
+ Inflows related to disposal of financial assets				
- Effect of the changes in the consolidation scope				
Cash flows from investing activities	**C**			
+ Capital increases through new contributions				
- Dividend distributions				
+ Borrowings				
+Other financial liabilities				
- Repayment of borrowings and other financial liabilities				
Cash flows from financial operations	**D**			
Change in cash for the period (E=B+C+D)	**E**			
Cash position as of 31 December (F=A+E)	**F**			
Control = Cash assets N-1 - Cash liabilities N-1				
+/-Effect of changes in currencies rates	G			
Change in the net cash position (H=E+/-G)	**H**			

Appendix 7: The SYSCOHADA Statement of Change in Equities model

Items	Note	Capital	Premiums	Consolidated retained earnings	Annual Net income	Other		
						Consolidation difference	Revaluation difference	Securities of the consolidating entity
Equity closing date N-2								
Changes in accounting methodologies								
Equity closing date N-2 corrected								
Capital movement N-1 (a)								
Changes in the capital of consolidating entity								
Acquisitions or disposals of treasury shares								
Impact of revaluations								
Annual consolidated income								
Distribution of dividends								
Changes in conversion differences								
Other movement								
Equity closing date N-1								
Changes in accounting methodologies								
Equity closing date N-1 corrected								
Movements for the year N (b)								
Equity closing date N								

Appendix 8: The FRS for LMSE consolidated Statement of Financial Position

	Dipnot Referansı	Cari Dönem	Önceki Dönem
VARLIKLAR			
Dönen Varlıklar			
Nakit ve Nakit Benzerleri			
Finansal Yatırımlar			
Ticari Alacaklar			
Diğer Alacaklar			
İştiraklerden ve Müşterek Girişimlerden Alacaklar			
Ödeme Çağrısı Yapılmış Sermaye Alacağı			
Ortaklardan Alacaklar			
Diğer Taraflardan Alacaklar			
Devam Eden İnşa Sözleşmelerinden Alacaklar			
Stoklar			
Ham Madde ve Malzeme			
Yarı Mamuller			
Mamuller			
Ticari Mallar			
Diğer Stoklar			
Verilen Avanslar			
Canlı Varlıklar			
Peşin Ödenmiş Giderler			
Peşin Ödenmiş Vergi ve Benzerleri			
Diğer Dönen Varlıklar			
Toplam Dönen Varlıklar			
Duran Varlıklar			
Ticari Alacaklar			
Diğer Alacaklar			
İştiraklerden ve Müşterek Girişimlerden Alacaklar			
Ortaklardan Alacaklar			
Diğer Taraflardan Alacaklar			
Devam Eden İnşa Sözleşmelerinden Alacaklar			
Finansal Yatırımlar			
Özkaynak Yöntemiyle Değerlenen Yatırımlar			
Canlı Varlıklar			
Yatırım Amaçlı Gayrimenkuller			

Maddi Duran Varlıklar			
Arazi ve Arsalar			
Binalar			
Yeraltı ve Yerüstü Yapıları			
Tesis, Makine ve Cihazlar			
Taşıtlar			
Demirbaşlar			
Yapılmakta Olan Yatırımlar			
Diğer Maddi Duran Varlıklar			
Verilen Avanslar			
Maddi Olmayan Duran Varlıklar			
Geliştirme Maliyetleri			
Gayri Maddi Haklar			
Şerefiye			
Diğer Maddi Olmayan Duran Varlıklar			
Verilen Avanslar			
Peşin Ödenmiş Giderler			
Ertelenmiş Vergi Varlığı			
Diğer Duran Varlıklar			
Toplam Duran Varlıklar			
TOPLAM VARLIKLAR			
KAYNAKLAR			
Kısa Vadeli Yükümlülükler			
Finansal Yükümlülükler			
İhraç Edilen Menkul Kıymetler			
Paylara Dönüştürülebilir Borçlanma Araçları			
Finans Kuruluşlarına Borçlar			
Diğer Finansal Yükümlülükler			
Ticari Borçlar			
Diğer Borçlar			
İştiraklere ve Müşterek Girişimlere Borçlar			
Ortaklara Borçlar			
Diğer Taraflara Borçlar			
Devam Eden İnşa Sözleşmelerinden Borçlar			
Alınan Avanslar			
Ödenecek Vergi ve Benzeri Yükümlülükler			
Kısa Vadeli Karşılıklar			
Kıdem Tazminatı Karşılıkları			
Vergi Karşılıkları			
Diğer Kısa Vadeli Karşılıklar			
Ertelenmiş Gelirler			
Diğer Kısa Vadeli Yükümlülükler			
Toplam Kısa Vadeli Yükümlülükler			
Uzun Vadeli Yükümlülükler			
Finansal Yükümlülükler			
İhraç Edilen Menkul Kıymetler			
Paylara Dönüştürülebilir Borçlanma Araçları			
Finans Kuruluşlarına Borçlar			
Diğer Finansal Yükümlülükler			
Ticari Borçlar			
Diğer Borçlar			
İştiraklere ve Müşterek Girişimlere Borçlar			
Ortaklara Borçlar			
Diğer Taraflara Borçlar			
Devam Eden İnşa Sözleşmelerinden Borçlar			
Alınan Avanslar			
Ödenecek Vergi ve Diğer Yükümlülükler			
Uzun Vadeli Karşılıklar			
Kıdem Tazminatı Karşılıkları			
Vergi Karşılıkları			
Diğer Uzun Vadeli Karşılıklar			
Ertelenmiş Gelirler			
Ertelenmiş Vergi Yükümlülüğü			
Diğer Uzun Vadeli Yükümlülükler			
Toplam Uzun Vadeli Yükümlülükler			

	Dipnot Referansı	Cari Dönem	Önceki Dönem
ÖZKAYNAKLAR			
Ana Ortaklığa Ait Özkaynaklar			
Ödenmiş Sermaye			
Sermaye			
Ödenmemiş Sermaye (-)			
Sermaye Düzeltme Farkları			
Geri Alınmış Paylar (-)			
Paylara İlişkin Primler			
Yeniden Değerleme Yedeği			
Yabancı Para Çevrim Farkları			
Korunma Yedeği			
İştiraklerin ve Müşterek Girişimlerin Kazanç ve Kayıplarından Paylar			
Kâr Yedekleri			
Yasal Yedekler			
Statü Yedekleri			
Olağanüstü Yedekler			
Diğer Kâr Yedekleri			
Geçmiş Yıllar Kârları/Zararları			
Dönem Net Kârı/Zararı			
Kontrol Gücü Olmayan Paylar			
Toplam Özkaynaklar			
TOPLAM KAYNAKLAR			

Appendix 9: The FRS for LMSE consolidated Statement of Profit and Loss model

	Dipnot Referansı	Cari Dönem	Önceki Dönem
Satış Hasılatı			
Satışların Maliyeti (-)			
Tarımsal Faaliyetlerde Gerçeğe Uygun Değer Farkları			
Brüt Kâr/Zarar			
Araştırma ve Geliştirme Giderleri (-)			
Pazarlama Giderleri (-)			
Genel Yönetim Giderleri (-)			
Esas Faaliyetlerden Diğer Gelirler			
Esas Faaliyetlerden Diğer Giderler (-)			
Esas Faaliyet Kârı/Zararı			
Diğer Faaliyetlerden Gelirler			
İştiraklerin ve Müşterek Girişimlerin Kârlarından Paylar			
Yatırım Amaçlı Gayrimenkullerden Kira Gelirleri			
Yatırım Amaçlı Gayrimenkuller Değer Artış ve Satış Kazançları			
Maddi ve Maddi Olmayan Duran Varlıklar Satış Kazançları			
Diğer Gelirler			
Diğer Faaliyetlerden Giderler (-)			
İştirak ve Müşterek Girişimlerin Zararlarından Paylar			
Yatırım Amaçlı Gayrimenkuller Değer Azalış ve Satış Zararları			
Maddi ve Maddi Olmayan Duran Varlıklar Satış Zararları			
Diğer Giderler			
Finansal Gelirler			
Faiz, Kâr Payı vb. Gelirler			
Kur Farkı Gelirleri			
Finansal Yatırımlar Satış Kazançları			
Finansal Yatırımlar Değer Artış Kazançları			
Net Parasal Pozisyon Kazançları			
Diğer Finansal Gelirler			
Finansal Giderler (-)			
Faiz vb. Giderler			
Kur Farkı Giderleri			
Finansal Yatırımlar Satış Zararları			
Finansal Yatırımlar Değer Azalış Zararları			
Net Parasal Pozisyon Kayıpları			
Diğer Finansal Giderler			
Dönem Kârı veya Zararı			
Vergi Gideri (-)			
Dönem Net Kârı veya Zararı			
Ana Ortaklık Sahiplerine İsabet Eden Dönem Net Kârı veya Zararı			
Kontrol Gücü Olmayan Paylara İsabet Eden Dönem Net Kârı veya Zararı			

CURRICULUM VITAE

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