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# Comparison of accounting systems between Iran and Turkey: income statement

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ABSTRACT

*Purpose: Analyzing Financial Statements prepared by TFRS and IRAS is so vital for Turkish, Iranian, international researchers and entrepreneurs because of their studying and Investments in related countries. The purpose of this paper is to compare the accounting standards and systems of both emerging markets and analyzing the Income Statements come from two countries' different accounting standards.*
*Design/methodology/approach: In this research, besides Historical Developments in Iran and Turkey Accounting System, the differences between Turkey Financial Reporting Standards which adopted with IFRS and Iran Accounting Standards which does not adopt with IFRS is compared. Accordingly, the Income Statements of one Turkish company group which operating in Iran were analyzed and transmuted to Turkey Financial Reporting Standards. Findings: We found that some accounting standards are accepted in Turkey due to adoption of IFRS which are not accepted in Iran; moreover, in some cases applying the same standards is different in both countries. We analyzed Income Statements which prepared by both countries' accounting standards and the result shows that the profit of Income Statements in IRAS is 6% more than the profit of Income statements prepared by TFRS or IFRS. Practical implications: In fact, the results and analysis are obtained by this research, may have many other applications for various emerging capital markets, investors, legislators and researchers for understanding the difference between IRAS with TFRS and IFRS. Originality value: The study is unique since it compares two-country accounting standards and shows how the transition of an income statement prepared with IRAS to TFRS has been accomplished.*
*Keywords: Accounting system, IRAS, TFRS, IFRS, Iran, Turkey.*

**Introduction**

Because of having different accounting practices in two countries, reporting activity results in the invested country to determine and compare the profitability of investments can be an arduous and expensive process. For example, if Dutch electric Philips Company implemented U.S. GAAP (Generally Accepted

Accounting Principles) in its 2001 report, it would show its loss 5% less than prepared reports under Dutch GAAP (Çankaya, 2007). Today, more than 100 countries across the world authorize the implementation of IFRS (Kamarajugadda & sireesha, 2015). Erlend Kvaal & Christopher Nobes, for 16 accounting policy issues, they found instead significant evidence that preIFRS national practice continues where this is allowed within IFRS. By this, they document the existence of national patterns of accounting within IFRS. They also point out some policy implications that arise from our findings (Kvaal & Nobes, 2010). Stadler, C.,& Nobes,C.W. found that country factors have the greatest influence on IFRS policy choice (Stadler & Nobes, 2014). Due to the differences between countries' national economic, culture, system of accounting and practices can be distinguished from each other (Cieslewicz, 2014).

The current wave of globalization favors the adoption of IFRS in most countries (Boolaky, et al., 2018). Studies have shown that the countries which adopted the accounting system's with IFRS made enhance market developments and economic growth (Ben Othman & Kossentini, 2015).

In the Finish reporting environment, according to Soderlund (2010 cited in Daniel, 2015) examined whether IFRS has more value relevant than Finish Accounting Standard (FAS), the results indicate that value relevance increased in the balance sheet under IFRS and decreased in the Income statement. Oida and Orgiedu studied IFRS adoption for Nigeria and other adopters, the results illustrate that IFRS help to investors to compare financial statements (Odia & Ogiedu, 2013). Abata surveyed the effect of IFRS adaption in the Nigerian-banking sector and found that there is a significant difference between NGAAP and IAS/IFRS (Abata, 2014). Another study about the adoption of IFRS throughout the world in Africa showed the benefits and expectations of transport to IFRS (Adetula, et al., 2014). In 2009, Yip and Young have studied the comparability of mandatory IFRS European Union companies and found that this kind of adoption makes the comparability of cross-country financial statements more understandable (Yip & Young, 2012). Elbakry et al. evaluated taxation comparative evidence on the value relevance of IFRS-based on accounting information in Germany and the UK which found that the potential costs of switching to the IFRS are completely nullified within three years by the benefits arising from a reduction in information asymmetry and earning mismanagement among firms which are listed on the stock exchanges of both common law and code law-based EU countries (Elbakry, et al., 2017).

Due to the European Union's decision, Turkey has accepted International Financial Reporting Standards (Yüksel , et al., 2008). Turel has studied the relative and incremental value relevance of earnings and the book value of equity under Capital Market Board (CMB) Accounting Standards of Turkey before adaptation (2001-2002) and under IFRS (2005-2006) for Turkish listed firms. He found that the value relevance of earnings and book value of equity has increased significantly after adopting IFRS (Turel, 2009). Furthermore, other researchers analyzed the effects of conditional and unconditional conservatism and IFRS adoption on the value relevance of accounting information in Indonesia and found the value relevance tends to increase following IFRS implementation (Indira & Aliriza , 2017).

The study is important because Iran continues to develop its potential and has not accepted the entire of IFRS until 2019, at a time Turkey – which is one of the huge partners for Iran in the Middle East from 2005 to 2018 (UNCTAD Report, 2019) – has harmonized its accounting practices by adopting international financial reporting standards (IFRS) in 2005 (Demir & Bahadir, 2016). Moreover, U.S. sanctions on Iran, which are primarily “secondary sanctions” on firms that conduct certain transactions with Iran, have adversely affected Iran's economy (Kenneth, 2020). However, in this situation some countries particularly Turkey are doing trade with Iran, and Turkey attends to get a target of $30-billion trade with Iran and implement the agreements between the two sides (Mahmoud, 2019).

**Table 1. Bilateral Trade between Turkey and Iran (billion dollars)**

| | **2016** | **2017** | **2018** | **2019** |
|---|---|---|---|---|
| **Export to Iran** | 4.96 | 3.26 | 2.40 | 2.31 |
| **Import from Iran** | 4.70 | 7.50 | 6.90 | 3.29 |
| **Volume** | 9.70 | 10.76 | 9.30 | 5.60 |
| **Balance** | 0.30 | -4.24 | -4.54 | -0.98 |

Besides, Turkey and Iran are two neighboring countries and there are many common points and these factors are integral parts of commercial agreements and activities between the two countries. For Turkey, the Iranian market with an 18% growth in 2011, and 2012 dramatically have increased to %176 which is one of the best destinations for business (Karahan, 2014). This trend has been increased in the following years which can be seen in table 1 the rate of import and export between Turkey and Iran for the last four years ended to 2019 is illustrate (Sinkaya, 2019).

Consequently, two objectives are set: firstly, to explain historical developments in the Iranian Accounting System with the Turkish Accounting System and illustrating the differences between TFRS & IRAS and secondly, to analyze the process of converting the Income Statement from IRAS to TFRS. Hence, our study has potential benefits to stockholders, for instance, international once – since Turkey adopted IFRS so converting Income Statements from IRAS to TFRS is like converting to IFRS too – and particularly Turkish enterprises, professional bodies, regulators and academicians who all required reliable, understandable and comparable income statements. The rest of the study is followed by related research in deferent countries and stock markets about adaptation to IFRS, Iran Accounting Standards, Turkey Accounting Standards, and affecting on income statements. Section 3 discussed the investigation of the accounting profession in Turkey. Differences between two country standards related to income statement arrangement are explained in section 4, while Case study, Conclusions, and implications are discussed in sections 5 and 6.

## Literature Review

- **A brief background about the influence of adaptation IFRS, impediments and influences**

This study is focused on two countries accounting systems and standards. Turkey has adopted IFRS in 2005 but Iran until 2020 entirely does not accept IFRS; so, investigating different standards in two countries let us understand the difference of Iran Accounting Standards (IRAS) with IFRS, too.

Daske et al. have studied 26 countries and examined the economic outcomes of mandatory IFRS on stock-market liquidity and the cost of capital over the first year of adoption to IFRS. They found that introduction of IFRS had a guide to rise market liquidity, dropped firms' cost of capital, and raised equity valuation especially in countries with superior in clearness and strong legal pressure mechanisms. Moreover, the research showed that the capital market's influence was more evident in companies that voluntarily adopted IFRS before they became mandatory (Holger, et al., 2008). Indeed, another study related to the challenge of IFRS and its influence on Czech companies, the research concluded the difference between IFRS and Cz GAAP, tax legislation, and cost of IFRS as challenges and better understandability and comparability of financial statements, accurate information and better relationship with company stockholders. They concluded that authority is the best way of harmonization of the Czech economy (Struhařová, et al., 2011).

Some other researchers have concentrated on culture and overcoming economic items linked to the adoption and implementation of IFRS. For instance, Cardona, et al. worked such influence of culture and a country's dominant economic items on its IFRS implementation determination based on a test of 69 countries (Cardona, et al., 2014). Also, some researchers have studied about the particular case of early adoption using a sample of 71 countries and deduced that countries which have incapable governing structures and less level of economic want to adopt IFRS earlier since of a presumed require for truth and resources from IFIs, e.g., WB and IMF (Alon & Dwyer, 2014). One year later Cascino et al. studied the influence of mandatory IFRS adoption on the comparability of financial accounting information, according to firm-level information acquired from Germany and Italy. They found that the influence was low, and the regional and country-level motivation were found to accept observance. Even though they appointed that the incentives increased comparability, they mentioned that companies from countries with secure reporting enforcement show signs of having experienced more comparability influence (Cascino & Gassen, 2015).

Ashraf et al. have studied the effect of adaptation IFRS in two developed European countries (The UK and Germany), they found that despite the value relevance of the book values of equity has declined, it has been replaced by the increasing prominence of earnings in both Germany and the UK after the switch to the IFRS, and the potential costs of switching to the IFRS is completely nullified within three years by the benefits arising from a reduction in information asymmetry and earning mismanagement among firms which are listed on the stock exchanges of both common law and code law-based EU countries (Ashraf, et al., 2017).

Furthermore, Koning et al. studied in 168 countries about the adoption of IFRS and found that the countries which adopt IFRS are not affected by local determinants; however, policy forces of learning, imitation among countries, and competition sense have vital reasons. As a consequence, there is no enough evidence of the compulsory effect on countries to adopt IFRS but countries like to adopt IFRS by way of learning and competition with other countries (Koning, et al., 2018). Boolaky et al. study are identified several impediments to the development of accounting practices and the adoption of IFRS in MENA countries (Egypt, Jordan, Libya, and UAE). It also reveals that three of the four MENA countries (Egypt, Jordan, and UAE) could be placed on a level playing field with their principal trading partners (the US, the UK, Germany, and Italy) given the formers' business environments, methods of raising finance and levels of professional accounting practices (Boolaky, et al., 2018). In 2020, some researchers found that the presence of global audit firms and the years of membership in the International Federation of Accountants (IFAC) is strongly associated with a country's decision to adopt IFRS. Also, countries with a more structured and active Professional Accounting Organization (PAO) are more likely to adopt IFRS (Boolaky, et al., 2020).

- **Effect of using different standards on earning quality**

Previous studies illustrated that the value of the investment in companies has a direct relation on companies' profitability in the income statement (Collins, et al., 1999; Mitrione, et al., 2014; Zhou, et al., 2015). Gopal and Jing have investigated the effect of mandatory IFRS on earning quality related to Canadian GAAP (CGAAP), they found on average, relative to IFRS-earnings, earnings under CGAAP have considerable affiliation with next year's cash flows and a higher degree of durability. Furthermore, when the difference between earnings under CGAAP and IFRS is huge, IFRS-earnings are less value-relevant and less persistent. Moreover, they found that differences between CGAAP and IFRS as well as attention to accounting for financial instruments and investments considerably reduce the quality of IFRS-earnings (Gopal & Jing , 2019).

In this research, the case study has used to illustrate the differences between income statements of two emerging countries, which have common points in culture, population, religion, and ecology, but both countries have applied different accounting standards.

In the current literature, various elements have been used to explain IFRS adaptation in developed and developing countries. However, most of the researches was unable to sufficiently spell out why the countries which share ordinary political, religious, population, and ecology (such as Iran and Turkey) can be at different accounting standards in which Turkey adopted IFRS and Iran use IRAS. Furthermore, international stockholders particularly Turkish enterprises, professional bodies, and academicians can use the result of this study for making their decision.

This is the vital gap that this research attends to fill by comparing systems and simplification of transaction income statements from IRAS to TFRS, and illustrate what are the differences between two emerging countries income statements. In the next section, investigating the accounting profession in Turkey is explained.

## Investigation of Accounting Profession in Turkey

The most important regulations guiding the accounting and auditing profession in Turkey is law No. 3568 that published in the official gazette with number 20194 at the date of 01.06.1989. This law aims to establish a chamber of accountants, certified public accountants, organizations, activities, and auditors to organize guidelines for the selection of organizations. In the first stage of establishing accounting standards in Turkey, various institutions and organizations have carried out many studies. These organizations; State Economic Enterprises Reorganization Commission, the Capital Markets Board of Turkey, the Turkish Standards Institute, the Banks Association of Turkey, and various organizations under the Ministry of Finance have been established.

"Turkish Accounting and Auditing Standards Board" (TMUDESK) was established by TÜRMOB (Union of Accounting Chambers of Turkey) in 1994. Although 19 Turkey Financial Reporting Standards have been issued by TMUDESK since 1994; due to lack of sanction these standards could not be applied by corporations and institutions (Yılmaz, 2016). Through Law No: 4487 dated December 1999, an addendum was made to the Capital Markets Law for the establishment of the Turkish Accounting Standards Board (TASB) to issue Turkish Accounting Standards (TAS) that would facilitate fair disclosure of the financial position. The board has both administrative and financial autonomy. It held its first meeting in March 2002 and has nine representatives from the Ministry of Finance, Higher Education Council, CMB, the Under secretariat of Treasury, Ministry of Industry and Commerce, the Banking Regulation and Supervision Agency (BRSA), the Union of Chambers and Commodity Exchanges in Turkey (TOBB), a self-employed accountant and a certified financial consultant from Union of Certified Public Accountants and Sworn-in Certified Public Accountants in Turkey (Hoşal Akman & Şımga Muğan, 2007). TASB was reformed as Public Oversight, Accounting, and Auditing Standards Authority (KGK) in 2011. Now KGK has been issuing and updating the TFRS's and Turkish Auditing Standards.

Turkey Financial Reporting Standards & Turkish Financial Reporting Standards (IFRS's) are fully compatible with IFRS's. They have the same numbering:

- IAS 1- 41 = TFRS 1 - 41
- IFRS 1 - 15 = TFRS 1 – 15
- IFRS for SME's = TFRS for SME's

Turkish Auditing Standards are also fully compatible with ISA's. They have also the same numbering with International Standards on Auditing (ISA's).

According to IRAS and TFRS (Gökçen, et al., 2015) for companies on the stock exchange, the financial reporting period is shorter than a full financial year (most typically a quarter or half-year); moreover, both of countries have accepted the minimum components specified for an interim financial report.

**Differences between two country standards related to income statement arrangement**

According to TFRS, companies can choose to adjust income statements on a function or type basis; but, according to IRAS, the income statement table can only be adjusted based on function. It is stated that no income and expense items in the IRAS (Talebzadebaii, 2019) and TFRS (Karpınar, 2019) standards can be reported under the heading "extraordinary income and expense".

**Table 2: A comparison of the value of Items in the Financial Statement Regarding IRAS and TFRS[17]**

| Explanation | IRAS | TFRS |
|---|---|---|
| Accounting for Government Grants and Disclosure of Government Assistance | IRAS 10, Article 9, proposes the use of local laws in accounting for government incentives. | According to TFRS 20, recording incentives by the entity in the financial statements with fair value. |
| Tangible Fixed Assets | According to IRAS 11, the salvage value must be valued only when the depreciation is recognized in the first year, but the useful life is reviewed every year. | According to TFRS 16, the salvage value and useful life of an asset are reviewed and reassessed at the end of each accounting period. |
| Related Party Disclosure | According to IRAS 12, the salaries of business managers are not disclosed, and if a state-owned enterprise is dealing with another state enterprise it is necessary to disclose details of the transactions. | According to TFRS 24, all transactions with related parties and salaries of managers and other transactions must be disclosed. |
| Business combination | According to IRAS 19, goodwill is amortized by a straight-line depreciation method for a maximum of 20 years. According to the IRMS, the share of the acquires the net fair value of identifiable assets, liabilities and contingent liabilities, become greater than the cost of the combination, the remaining part of the acquiring company, non-monetary assets acquired should be reduced to their fair value. | According to TFRS 3, goodwill acquired during business combinations cannot be amortized. According to TFRS, this excess can be recognized as profit or loss. |
| Investments in Associates and Joint Ventures | 1. In IRAS Goodwill is included in the balance sheet as a separate account and in 20 years is being depreciated.<br>2. In IRAS, in the acquisition of investment, If the net fair value of net assets, liabilities, and contingent liabilities are less than the share of the business, it is necessary to fall from the fair value of assets obtained properly. | 1. In the TFRS, goodwill is recorded at book value and is not subject to amortization.<br>2. In TFRS, in the acquisition of investment, If the net fair value of net assets, liabilities, and contingent liabilities are less than the share of the business, it is reflected in the income statement as a merger profit. |

| | | |
|---|---|---|
| | 3. According to the IRAS, if there is a gain previously accounted in comprehensive income by the investee and wants to distribute a share of its retained earnings, in this case, the investor has to fall from the book value of his investment and is reclassified to profit or loss related to the disposal of the related asset or liability. | 3. According to the IRAS, if there is a gain previously accounted for in comprehensive income by the investee and wants to distribute a share of its retained earnings, in this case, it is reclassified to profit or loss. |
| Housing Transactions | IRAS 29, "Housing Transactions" is defined by the percentage of completion of income and expenditure of housing activities. According to the article no 26, the definition of income must be at the same time according to four conditions: 1. The sale of housing started with the signing of the contract. 2. Housing construction work has started physically. 3. The costs of the project can be assessed reliably. 4. At least 20% of the sales price paid. | In Turkey accounting standard "housing standards-making process" is not taking place; but, the accounting method used in the residential business was included in the TFRS 11 construction contract standard as the percentage of completion method.<br>In Turkey Accounting Standards, while looking at the conditions defining income, there is no payment of 20% of the sales price condition. |
| Financial Reporting Before Installation | According to IRAS 24, financial statements of entities prior to installation should pay attention to the following issues: They have to write "Financial Tables Before Installation" on all pages of the financial statements. Cash inflows and outflows in the cash flow table, accumulated as the whole years before the full install will be recorded as a whole. Detailed explanations of the work done and the percentage of completion will be included in the financial statements. Timing plan for completion of the project and reasons for not finishing in time should be stated. | Turkey Financial Reporting Standards do not have a separate set of standards for financial reporting before the establishment. |
| First-time Adoption of Turkey Financial Reporting Standards | Iranian Accounting Standards do not adopt International Accounting Standards and are not used in the first Practical Financial Reporting Standards. | This standard is applied as the 1st Turkey Financial Reporting Standard. |
| Investigation and Evaluation of Mineral Resources | In Iran Accounting Standards, this standard is not included in particular.<br>According to IRAS 17, assets acquired from research and development expenditures are Intangible Fixed Assets. If the value and useful life of these assets are known, they will be subject to depreciation, but if it is not certain, they will be subject to revaluation. | This standard is located in Turkey Financial Reporting Standards as the 6th standard.<br>Assets that arise as a result of development activities are based on the provisions of the TFRS 38 Intangible Assets Standard. After initial recognition, research and evaluation assets are applied either in Cost Models or Revaluation Models. |
| Deferral-Based Deployment Calculations | This standard is not included in the Iranian accounting standards. | The aim of the 14th TFRS is when an entity offers goods or services to a customer at a price or a tariff determined according to the tariff regulation to which they are subjected related to the deferral account balances based on the resulting arrangement to specify the financial reporting requirements. |
| Income tax | This standard is not included in the Iranian accounting standards. There are no significant differences between accounting profit and tax profit by using the Iranian accounting standards; This may be one of the reasons that income tax is not being included in Iranian accounting standards. According to IRAS profits gained through investing in businesses pay the tax itself. | “Income Taxes” as TFRS 12 took place. According to TFRS 12, income tax is being deducted from the profits paid to the investing enterprise and then net profit paid to the investing company. |
| Cost of Fixed Assets | According to Article 17 of IRAS 11, the acquisition or construction of direct and indirect tangible fixed assets Costs arising from employee benefits is added to the cost of the tangible asset, for example, executive salaries in capital projects are added to the cost. | According to Article 17 of TFRS 16, the acquisition or construction of direct and indirect tangible fixed assets Costs arising from employee benefits is not included in the cost of the tangible asset. For example, managerial salary in capital projects is not added to the cost. |
| Exchange Rate Changes | IRAS 16: Article 19: Payment of monetary items or purchase or sale of tangible fixed assets during accounting Exchange rate, differences resulting from the conversion of different currencies, if Iran currency lost more than 20% of the value of foreign currencies, is added to the price of the asset acquired or issued.<br>In the future, if there is a profit from the exchange surplus, up to 20% of the increased price has to be reduced and it will be reflected in the income statement. | TFRS 21: Article 28: Exchange differences arising when monetary items are settled or when monetary items are translated at rates different from those which they were translated when initially recognized or in previous financial statements are reported in profit or loss in the period.<br>Article 48: When a foreign operation is disposed of, the cumulative amount of the exchange differences recognized in other comprehensive income and accumulated in the separate component of equity relating to that foreign operation shall be recognized in profit or loss when the gain or loss on disposal is recognized. |

| | | |
|---|---|---|
| Business Combinations | According to IRAS 36, Article 19:<br>Goodwill is not recognized in the acquire. And only in the acquiring business, goodwill is doing accounting and measurement at the date of the merger, moreover, goodwill is not recognized in the subsidiary.<br>IRAS 36, 37-38. According to the material:<br>An entity can depreciate up to 20 years in the subsequent measurement and recognition of assets acquired and liabilities assumed and does not use the impairment method. | According to TFRS 3, Article 32:<br>Goodwill is not recognized in the acquire.<br>Goodwill is measured as the difference between:<br>the aggregate of (i) the value of the consideration transferred (generally at fair value), (ii) the amount of any non-controlling interest, and (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquire, and the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (measured following IFRS 3).<br>Goodwill represents a payment made by the acquirer in anticipation of future<br>economic benefits from assets that are not capable of being individually identified, recognized, or reliably measured individually. The value of goodwill need not be justified but is subject to tests of impairment. Goodwill is not amortized. Goodwill is<br>to be measured subsequently at the amount recognized at the acquisition date less any accumulated impairment losses. The goodwill carrying amount must be tested for impairment following the requirements of TFRS 36, Impairment of Assets. |
| Investments in Associates and Joint Ventures | According to IRAS 20, article 21,<br>An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition, any differences between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities in case of goodwill are included in the carrying amount of the investment (amortization permitted at most in 20 years). Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is decreased from Non-monetary assets of the associate or joint venture. | According to TFRS 28, article 32,<br>An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition, any differences between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities in case of goodwill are included in the carrying amount of the investment (amortization not permitted). Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate or joint venture's profit or loss in the period in which the investment is acquired. Adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date or for impairment losses such as for goodwill or property, plant, and equipment. |
| Employee Benefits | According to Article 66, IRAS 33:<br>1. Investments in the stock exchange are valued with Net Sales Value. 2. Investments made in other companies, as well as other assets to be kept are assessed by the reevaluation model. | According to Article 113, TFRS 19:<br>The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the net deficit or surplus. |

## Case study

As the "A" company in Turkey is registered to the capital market board and "Demir" company in Iran is the "A" company`s subsidiary; so, "A" company needs to provide consolidated financial statements. In this case study, income statements of Demir Company provided with IRAS has transformed into income statements with TFRS. In the following and table 3, there is an income statement for Demir Company which is prepared with IRAS for the year ended 31 December 2019.

**Table 3: Income Statement for Demir Company with IRAS in 2019**

| IRAN ACCOUNTING CODE | | Ended value 31.12.2019 | |
|---|---|---|---|
| CODE | Explanation | (Rial) | (Rial) |
| 4110 | Gross Sales | 2,128,971 | |
| 411001 | Domestic Sales | 2,128,971 | |
| | Net Sales | | 2,128,971 |
| 511001 | Cost of goods sold | -960,077 | -960,077 |
| | Gross profit | | 1,168,894 |
| 6112 | Operation expenses | | 149,992 |
| 611201 | Selling expenses | -149,992 | |
| | Income from operations | | 1,018,902 |
| 6211 | Ordinary income and profit from other operation | | 37,219 |
| 621101 | Other ordinary income and earnings | -37,219 | |
| | Operating Profit or Losses | | 1,101,743 |
| 6311 | Expenses and losses from other activities | | 188,883 |
| 631102 | Finance expenditures | -185,404 | |
| 631109 | Other non-exclusive losses | -3,479 | |
| | Income before income tax | | 867,238 |
| 641001 | Income tax | | -180,346 |
| 6420 | Net income for the year | | 686,892 |

For converting Demir company`s income statement has benefited from the exchange rate from the Central Bank of Iran. The exchange rates used are published in Table 4.

**Table 4: Exchange rates used for conversion**

| Explanation | | RIAL | MILLION RIAL |
|---|---|---|---|
| The capital was paid in 30/05/2010 | $1 | 20,000 | 0.02 |
| 2019 Average | $1 | 35,000 | 0.035 |
| 31/12/2019 | $1 | 38,000 | 0.038 |
| 1/1/2019 | $1 | 32,000 | 0.032 |

With the help of the rates in Table 4, Demir company`s Income statement has converted to the dollar in table 5.

**Table 5: income statement of Demir company with IRAS which converted to the dollar**

| Turkey's ACCOUNTING CODE(TAC) | | Ended value 31.12.2019 | |
|---|---|---|---|
| Code | Explanation | Dollar | |
| 60 | Gross Sales | 60,827,742.86 | |
| 600 | Domestic Sales | 60,827,742.86 | |
| | Net Sales | | 60,827,742.86 |
| 620 | Cost of goods sold | | 29,019,148,64 |
| | Gross profit | | 31,808,594.22 |
| 63 | Operation expenses | | -3,222,085.71 |
| 631 | Selling expenses | -4,285,485.71 | |
| 649 | Ordinary income and profit from other operation | 1,063,400 | |
| | Income from operations | | 28,586,508.51 |
| 65 | Expenses and losses from other activities | | 5,396,657.14 |

| | | | |
|---|---|---|---|
| 660 | Finance expenditures | 5,297,257.14 | |
| 689 | Other non-exclusive losses | 99,400 | |
| 690 | Income before income tax | | 23,189,851.37 |
| 691 | Income tax | | 4,745,947.37 |
| 690 | Net income for the year | | 19,747,389.71 |

The cost of goods sold has calculated in table 6, and rates that have used for this amount come from table 4.

**Table 6: Explanation of the cost of goods sold**

| **Cost of goods sold** | **Million Rial** | **Rate** | **Dollar** |
|---|---|---|---|
| Inventories at beginning of period | 386,755 | 0,032 | 12,086,093.75 |
| Those purchases during the period | 818,231 | 0,035 | 23,378,028.57 |
| Stocks at the end of the period | -244,909 | 0,038 | 6,444,973.68 |
| Cost of goods sold | 960,077 | | 29,019,148.64 |

Table 7 related to the detail of Demir company`s Income Statement dated 31.12.2019 which is converted from IRAS to TFRS. In the column of “convert number “the way of converting with the article has shown.

**Table 7: Demir company`s Income Statement dated 31.12.2019 converted from IRAS to TFRS**

| **TAC** | **Explanation** | **Conversion Proses No(CP)** | **IRAS 31.12.2019** | **Arrangement Differences** | **TFRS 31.12.2019** |
|---|---|---|---|---|---|
| | | | **Million Rial** | **Million Rial** | **Million Rial** |
| 60 | Gross Sales | | 2,128,971 | | 2,128,971 |
| 600 | Domestic Sales | | 2,128,971 | | 2,128,971 |
| | Net Sales | | 2,128,971 | | 2,128,971 |
| 620 | Cost of goods sold | | 960,077 | | 960,077 |
| | Gross profit | | 1,168,894 | | 1,168,894 |
| 63 | Operation expenses | | 149,992 | | 149,992 |
| 631 | Selling expenses | | 149,992 | | 149,992 |
| | Income from operations | | 1,018,902 | | 1,018,902 |
| 64 | Ordinary income and profit from other operation | | 37,219 | +1,700 | 38,919 |
| 649 | Other ordinary income and earnings | CP. 1&3 | 37,219 | +1,700 | 38,919 |
| 65 | Expenses and loses from other activities | CP. 2 | 188,883 | -4,000 | 192,883 |
| 657 | REDISCOUNT INTEREST EXPENSES | CP. 2 | 0 | -4,000 | 4,000 |
| 660 | Financial expenses | | 185,404 | | 185,404 |
| 689 | Other non-exclusive losses | | 3,479 | | 3,479 |
| 690 | Income before income tax | | 867,238 | -2,300 | 864,938 |
| 691 | Income tax | CP. 5 | (180,346) | -375 | (180,721) |
| | DEFERRED TAX PROVISION | CP. 4 | 0 | -1,646 | (1,646) |
| 692 | Net income for the year | | 686,892 | -4,321 | 682,571 |

The below will come the journal entries in Turkey’s books which organized as Conversion Processes from IRAS to TFRS.

**CP 1. Shares:**

In 2019, the stock increase was worth 200 million Rial.

110 Shares Account 200

649 Other Ordinary Income and Profits 200

649.5 Non-Taxable Profits

**CP 2. Receivable Discount:**

According to TFRS, 4,000 million Rials were allocated in the calculation of short-term receivable rediscount of Demir company; but, according to Turkey's tax procedure and IRAS not recognized this expense and is considered as a non-tax-deductible.

657 Rediscount Interest Expenses 4,000

122 Rediscount notes receivable (-) 4,000

**CP 3. Government Grants:**

The fair value of 4,000 million Rials as government grants in the Demir company which was recorded 2,500 million Rials.

252 Buildings 1,500

649.01 Revenues from Government Grants and Profits 1,500

**CP 4. Deferred Tax Asset:**

The deferred tax in Table 8 with using the conversion transactions is calculated.

**Table 8: Calculation of Deferred Tax in Demir Company for 2019**

| 31.12.2019 Balance sheet | TFRS Value | Tax Value | TEMPORARY DIFFERENCE | DEFERRED TAX |
|---|---|---|---|---|
| STOCKS | 1,801 | 1,601 | VGF[1] 200 | DTA[2] 50 |
| TRADE RECEIVABLES | 1,911,721 | 1,907,721 | DTD[3] 4,000 | DTA 1,000 |
| INVENTORIES | 244,909 | 265,886 | DTD 20,977 | DTA 5,244.25 |
| **ACTIVE TOTAL** | | | **DTD 16,777** | **DTA 4,194.25** |
| DEBT RESERVES | 251,729 | 330,901 | DTD 35,000 | DTA 8,750 |
| PROVISIONS FOR EMPLOYEE BENEFITS | 41,159 | 0 | DTD 41,159 | DTA 10,289.75 |
| **PASSIVE TOTAL** | | | **DTD 6,159** | **DTA 1,539.75** |
| DEFERRED TAX ASSETS | | | DTD 22,936 | DTA 5,734 |

## CP 5. Provision for Taxes and Other Liabilities for the Period

In the financial statements prepared under the Iranian Accounting Standards, the Provision for Current Period Profit and Other Liabilities has been announced as Rial 180,346 million and items that affecting to profit while converting direct operations (1,500 million rials) are determined by government grants. The effect of this item is as follows in the income statement and has shown in table 8.

1,500 * 25% = 375

360 Taxes and funds to be paid 375

691 Income Tax Expenses 375

**Table 9: Income Tax as IRAS and TFRS in 31.12.2019**

| IRAS- Rial | Increased Difference | TFRS- Rial |
|---|---|---|
| 180,346,000,000 | 375,000,000 | 180,721,000,000 |

[1] : *Taxable Temporary Differences ( TTD)*

[2] : *Deferred Tax Assets (DTA)*

[3] : *Deductible Temporary Differences (DTD)*

**Table 10: Income Statement of Demir company according to TFRS dated 31.12.2019**

| TAC | Explanation | | Million Rial |
|---|---|---|---|
| 60 | Gross Sales | 2,128,971 | |
| 600 | Domestic Sales | 2,128,971 | |
| | Net Sales | | 2,128,971 |
| 620 | Cost of goods sold | | 960,077 |
| | Gross profit | | 1,168,894 |
| 63 | Operation expenses | | 149,992 |
| 631 | Selling expenses | 149,992 | |
| | Income from operations | | 1,018,902 |
| 64 | Ordinary income and profit from other operation | | 38,919 |
| 649 | Other ordinary income and earnings | 38,919 | |
| 65 | Expenses and losses from other activities | | 192,883 |
| 657 | Rediscount Interest Expenses | 4,000 | |
| 660 | Financial expenses | 185,404 | |
| 689 | Other non-exclusive losses | 3,479 | |
| 690 | Income before income tax | | 910,560 |
| 691 | Income tax | | 180,721 |
| | Deferred Tax Provision | | 1,646 |
| 692 | Net income for the year | | 685,863 |

**Table 11: Demir company income statement for date of 31.12.2019 with an application of TFRS 21**

| Explanation | TFRS, Million Rial | Exchange rate | USD |
|---|---|---|---|
| Net Sales | 2,128,971 | 0.035 | 60,827,742.86 |
| Cost of goods sold | (960,077) | Table 6 | 29,019,148.64) |
| Gross profit | 1,168,894 | | 31,808,594.22 |
| Selling expenses | (149,992) | 0.035 | (4,285,485.71) |
| Income from operations | 1,018,902 | | 27,523,108.50 |
| Ordinary income and profit from other operation | 38,919 | 0.035 | 1,111,971.43 |
| Rediscount Interest Expenses | (4,000) | 0.035 | (114,285.71) |
| Financial expenses | (185,404) | 0.035 | (5,297,257.14) |
| Other non-exclusive losses | (3,479) | 0.035 | (99,400.00) |
| Income before income tax | 910,560 | | 24,236,108.52 |
| Income tax | (180,721) | 0.038 | (4,755,815.79) |
| Deferred Tax Provision | 1,646 | 0.038 | 43,315.79 |
| Net income for the year | 685,863 | | 18,411,637.09 |

Table 12 shows income statements provided by IRAS and TFRS and explains the difference between two country items of the income statement with a reason for diversity.

**Table 12: Differences between Revenue Items Made According to IRAS and TMS at the End of Case Resolution**

| TAC | Explanation | IRAS USD | Difference USD | TFRS USD |
|---|---|---|---|---|
| 60 | Gross Sales | 60,827,742.86 | | 60,827,742.86 |
| 600 | Domestic Sales | 60,827,742.86 | | 60,827,742.86 |
| | Net Sales | 60,827,742.86 | | 60,827,742.86 |
| 620 | Cost of goods sold | (29,019,148,64) | | (29,019,148.64) |
| | Gross profit | 31,808,594.22 | | 31,808,594.22 |
| 63 | Operation expenses | (4,285,485.71) | | (4,285,485.71) |
| 631 | Selling expenses | (4,285,485.71) | | (4,285,485.71) |
| 64 | Ordinary income and profit from other operation | 1,063,400 | +48,571.43 | 1,111,971.43 |
| 649 | Other ordinary income and earnings | 1,063,400 | +48,571.43 | 1,111,971.43 |
| | Income from operations | 28,586,508.51 | +48,571.43 | 28,635,079.94 |
| 65 | Expenses and losses from other activities | 5,396,657.14 | +114,285.72 | 5,510,942.86 |
| 657 | Rediscount Interest Expenses | 0 | +114,285.72 | 114,285.72 |
| 66 | Financial expenses | 5,297,257.14 | | 5,297,257.14 |
| 661 | Long-term Borrowing costs | 5,297,257.14 | | 5,297,257.14 |
| 68 | Unusual Expenses and losses | 99,400.00 | | 99,400.00 |
| 689 | Other non-exclusive losses | 99,400.00 | | 99,400.00 |
| 690 | Income before income tax | 23,189,851.37 | -1,046,257.15 | 24,236,108.52 |
| 691 | Income tax | (4,745,947.37) | +9,868.42 | (4,755,815.79) |
| | Deferred Tax Provision | 0 | +43,315.79 | 43,315.79 |
| 690 | Net income for the year | 18,443,904 | +32,266.91 | 18,411,637.09 |

The reason for the difference in ordinary income and profit from other activities according to IRAS and TFRS is in the calculation of government grants and evaluation of stock rating. The differences in ordinary income and profit from other activities are due to rediscount interest expense. The difference in the tax profit and other liabilities for the period shows that the overestimation of the government grants according to TFRS is reflected in the tax. The reason for the difference in the deferred tax asset in two countries' income statements is that it is not applied to the deferred tax standard in IRAS and it has no effect on IRAS financial statements. Table 13 presents the items that come from the differences that arise after the Demir company converts the income statement prepared in accordance with Iranian accounting standards to TFRS.

**Table 13: The Effects of items in Conversion from IRAS to TFRS on the income statement**

| Explanation | Amount of Change (Million Rial) |
|---|---|
| Profit according to IRAS | 686,892 |
| Effects of Correction | Increase / (Decrease) |
| Other Ordinary Income and Profits | +1,700 |
| Rediscount Interest Expenses | -4,000 |
| Period Profit Taxes and Other Liabilities | -375 |
| Deferred Tax Asset | -1,646 |
| Total Impact of Change | -4,321 |
| Profit according to TFRS | 682,571 |

The amount of change in Other ordinary income and profits is 1.700 Million Rial that comes from two items. First is 1.500 million Rial from increasing in government grants which according to IRAS, evaluating is at most with fair value, but; in TFRS, evaluating government grants is with fair value and second is 200 million Rials (1,500 +200) is due to the increase in valuation in shares. According to TFRS, valuation is made every year and the effect is reflected in the financial statements, but according to IRAS, valuation is made when sales are made. Rediscount interest expenses line, according to TFRS, Rediscount is the calculation in short term receivables rediscount of Demir company. But According to IRAS and Turkey Tax Procedure Law cannot evaluate these expenses and recognized as a not legally expense. In the line of income tax and other liabilities, the different gains from government incentives according to TFRS and IRAS result from different valuation methods and the effects are reflected in the profit of the period tax and other liabilities negatively. Deferred tax assets line, according to IRAS deferred tax assets are not used as an item added to the profit for the period is calculated. As a result, the income statement in the two countries has created differences in accounting standards and practices. Profit for the period declared on the Income Statement according to IRAS is 0.6% more than profit which comes from Income Statement via TFRS after the valuation transactions.

**Conclusions and Implications of the Study**

Turkey is engaged more than half of the foreign trade with the European Union (EU). However, especially since the mid-2000s, the Caucasus, the Middle East, such as Iran, North Africa, and the countries of the region have increased the share in Turkey's foreign trade. Such trade agreements are expected to increase trade between Iran and Turkey in the future, understanding the two countries' financial statements is important. These differences prevent the creation of comparable financial statements for global companies (or investments). Reporting the results of activities in the invested country, determining the correctness of such financial reports, comparing the profitability of investments due to different accounting practices in such countries can be a difficult and expensive process. For example; The Dutch power company Philips had been implementing Generally Accepted Accounting Principles (U.S. GAAP) in its 2001 report, and its continuing operations would have been 5% less than the losses in its reports prepared under Dutch GAAP. When the accounting standards of the two countries are examined, in terms of the provisions in the standards, there are differences in the valuation principles. In terms of Income Tax, this standard is not included in Iran accounting standards. There are no significant differences between accounting profit and tax profit in using the Iranian accounting standards; For this reason, the income tax may not be included in Iranian accounting standards. According to the Iranian Accounting Standards, Income tax calculated based on taxable income does not include tax deductions paid to the subsidiaries. Associates and joint ventures reporting on the profit distributions at the source means that the investing entity will pay its tax on the profit has earned. According to TFRS 12, income tax is decreased from the profits paid to the investing enterprise and paid to the investing company as a net. As a result, the differences between the two countries' income statements have raised from the accounting standards and practices of those countries. Profit for the period declared on the financial statements of the Demir company as a riyal after transactions from IRAS to TFRS has decreased by 0.6%. It means that income statements prepared by IRAS illustrate profit more than Income Statement prepared by TFRS or IFRS. In this study Turkish and Iranian accounting standards were compared at the same time we compared IFRS with IRAS because Turkey Financial Reporting Standards are fully the same with IFRS.

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