

**T.C.
ISTANBUL AYDIN UNIVERSITY
INSTITUTE OF GRADUATE STUDIES**



**EVALUATION AND COMPARISON OF THE FINANCIAL REPORTING
SYSTEMS OF PEOPLE'S REPUBLIC OF CHINA AND THE UNITED
STATES OF AMERICA**

**MASTER THESIS
Yasemin KAPLAN**

**Department of Business
Business Administration Program**

**Thesis Advisor
Assoc. Prof. Dr. Hülya BOYDAŞ HAZAR**

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İSTANBUL AYDIN ÜNİVERSİTESİ
LİSANSÜSTÜ EĞİTİM ENSTİTÜSÜ MÜDÜRLÜĞÜ



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	<u>Unvan</u>	<u>Adı Soyadı</u>	<u>Üniversite</u>	<u>İmza</u>
ASIL ÜYELER				
Danışman	Dr. Öğr. Üyesi	Hülya BOYDAŞ HAZAR	İstanbul Aydın Üniversitesi	
1. Üye	Dr. Öğr. Üyesi	Nurgün KOMŞUOĞLU YILMAZ	İstanbul Aydın Üniversitesi	
2. Üye	Prof. Dr.	Engin DEMİREL	Trakya Üniversitesi	
YEDEK ÜYELER				
1. Üye	Dr. Öğr. Üyesi	Esin Nesrin CAN	İstanbul Aydın Üniversitesi	
2. Üye	Dr. Öğr. Üyesi	Levent POLAT	İgik Üniversitesi	

ONAY

Prof. Dr. Ragıp Kutay KARACA
Enstitü Müdürü

DECLARATION

I hereby declare that all information in this thesis document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results, which are not original to this thesis. (14.01.2020)

Yasemin KAPLAN

To my lovely daughter, my little princess Yaz; you are the most beautiful dream in my life that came true, you are the unique fact of my life...

To my love; you are my other half, thanks for your patience and support as always you did.

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*Sincerely,
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S.M.M.M./CPA

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ABBREVIATIONS

AAG	: Audit and Accounting Guidelines
AICPA	: American Institute of Certified Public Accountants
AIN	: Accounting Interpretation
APB	: Accounting Principle Board
AR	: Account Receivable
ARB	: Accounting Research Bulletin
ASB	: Accounting Standards Board
ASC	: Accounting Standards Committee
ASR	: Accounting Series Release
ASSC	: Accounting Standards Setting Committee
CAO	: Chart of Account
CAP	: Committee on Accounting Procedure
CCAB	: The Consultative Committee of Accountancy Bodies
CICA	: The Canadian Institute of Chartered Accountants
CMA	: Certified Management Accountant
CMB	: Capital Markets Board
COGS	: Cost of Goods Sold
CPA	: Certified Public Accountant
DIG	: Derivatives Implementation Group
EITF	: Emerging Issues Task Force
FAF	: Financial Accounting Foundation
FAS	: Financial Accounting Standards
FASAC	: Financial Accounting Standards Advisory Council
FASB	: Financial Accounting Standards Board
FIN	: Financial Accounting Standards Board Interpretation
FRC	: Financial Reporting Council
FRR	: Financial Reporting Release
FRRP	: Financial Reporting Review Panel
FSP	: Financial Accounting Standards Board Staff Position
FTB	: Financial Accounting Standards Board Technical Bulletin
FX	: Foreign Exchange
G&A	: General Administrative Expense
GAAP	: General Accepted Accounting Principles
GASC	: German Accounting Standards Committee
IAS	: International Accounting Standards
IASB	: International Accounting Standards Board
IFRS	: International Financial Reporting Standards
IMA	: Institute of Management Accountants
MD&A	: Management Evaluation and Analysis
NYSE	: New York Stock Exchange

OPEX	: Operational Expense
PPP	: Private Public Partnership
PRC	: The People’s Republic of China
PRC GAAP	: The People’s Republic of China General Accepted Accounting Principles
ROI	: Return on Investment
SAB	: Staff Accounting Bulletin
SEC	: The Securities Commission
SOP	: Standard Operating Procedures
SSE	: Shanghai Stock Exchange
SZSE	: Shenzhen Stock Exchange
TAS	: Turkish Accounting Standards
TCC	: Turkish Commercial Code
TFRS	: Turkish Financial Reporting Standards
TIS	: Technical Information Systems (for accounting software revenue only)
TPL	: Tax Procedure Law
UK	: United Kingdom
USA	: The United States of America
US GAAP	: The People’s Republic of China General Accepted Accounting Principles
XBRL	: Extensible Business Reporting Language
VAT	: Value Added Tax

EVALUATION AND COMPARISON OF THE FINANCIAL REPORTING SYSTEMS OF PEOPLE'S REPUBLIC OF CHINA AND THE UNITED STATES OF AMERICA

ABSTRACT

Since multinational companies doing business in different countries, they face different accounting practices which changing country to country. There are various reasons that affect the financial reporting faced by multinational enterprises such as economic structure, political conditions, tax laws, applicable accounting standards, different accounting principles in different currencies, transfer prices, inflation, qualified manpower and culture. These factors change the results of financial reporting. The increasing spread of technological developments in the world and the diversity of economic activities necessitate the standardization of record keeping techniques and increasingly emphasize the necessity of uniform accounting. Today, the number of firms operating in different countries and thus holding records in more than one country is not small and this number tends to increase gradually. The concept of uniform accounting is one of the most important elements of the infrastructure of the free movement of capital. Common accounting standards have a positive impact on the performance of mergers and transnational companies, stock exchanges, investors. In this study, the effects of financial activities will be evaluated and compared between financial reporting system of United States of America and The People's Republic of China which are the one of the largest two economies in the world. Comprehensive sample financial statements will be reviewed and detailed analyze will be made according to the People's Republic of China General Accepted Accounting Principles (PRC GAAP) financial reporting standards and The United States of America General Accepted Accounting Principles (US GAAP) financial reporting standards and will be summarized as a comparative table for reference of the business life. The purpose of the work of this comparison and evaluation is to provide accurate, reliable and transparent information to the decision makers and all kind of users who will use the financial statements. For this purpose, both balance sheet and income statement will be used. Different items will be compared with each other from different financial system's balance sheet and income statement. Changes will be made in relation to the items and the results will be evaluated.

Key Words: *Financial reporting, America, China, US GAAP, PRC GAAP*

ÇİN HALK CUMHURİYETİ VE AMERİKA BİRLEŞİK DEVLETLERİ FİNANSAL RAPORLAMA SİSTEMLERİNİN DEĞERLENDİRİLMESİ VE KARŞILAŞTIRILMASI

ÖZET

Birden fazla ülkede faaliyet gösteren çok uluslu işletmeler farklı ülkelerde faaliyet gösterdiklerinden dolayı, ülkeler arasında değişiklik gösteren muhasebe uygulamalarıyla karşılaşmaktadırlar. Çok uluslu işletmelerin karşılaştığı finansal raporlamaları etkileyen sebepler arasında; ekonomik yapı, siyasi şartlar, vergi yasaları, uygulanan muhasebe standartları, farklı muhasebe raporlamaları, finansal raporların değişik bir para birimi üzerinden hazırlanması, transfer fiyatları, enflasyon, kaliteli iş gücü ve kültür gibi etkenlerin finansal raporlamaların sonuçlarını değiştirdiği görülmektedir. Dünyadaki teknolojik gelişmelerin giderek yaygınlaşması ve ekonomik faaliyetlerin çeşitliliği, kayıt tutma tekniklerinin standardizasyonunu gerektirmekte ve tekdüzen muhasebenin gerekliliğini giderek daha fazla vurgulamaktadır. Günümüzde, farklı ülkelerde faaliyet gösteren ve bu nedenle birden fazla ülkede kayıt tutan firma sayısı az değildir ve bu sayı giderek artmaktadır. Tekdüzen muhasebe kavramı, sermayenin serbest dolaşımının altyapısının en önemli unsurlarından biridir. Ortak muhasebe standartlarının birleşme ve uluslararası şirketlerin, borsaların, yatırımcıların performansı üzerinde olumlu bir etkisi vardır. Bu çalışmada, dünyanın en büyük ekonomileri arasında yer alan Amerika Birleşik Devletleri ve Çin Halk Cumhuriyeti arasındaki ticaret rekabetinin sonucu olan finansal faaliyetlerinin, finansal tablo raporlamalarına etkileri değerlendirilecek ve karşılaştırılacaktır. Çin Halk Cumhuriyeti Genel Kabul Muhasebe İlkeleri (PRC GAAP) finansal raporlama standartları ve Amerika Birleşik Devletleri Genel Kabul Muhasebe İlkeleri (US GAAP) mali tablolarına göre kapsamlı örnek finansal tablolar incelenecek ve ayrıntılı analiz yapılacaktır. Hazırlanacak olan bu değerlendirmenin ve karşılaştırmanın amacı finansal tabloları kullanacak olan tüm kullanıcıların karar verme ve yatırım yapma kararlarına daha doğru, güvenilir ve şeffaf bilgiyi sunmaktır. Bu amaç doğrultusunda yapılacak olan çalışmada, mali tablolardan bilanço ve gelir tablosu kullanılacaktır. Her iki raporlama sistemine ait bilanço ve gelir tablosu kalemleri incelenecek ve arasında değişiklik olan kalemler birbirileri ile karşılaştırılacak, değişiklik olan kalemlerle alakalı karşılaştırma yapılacak ve sonuçları değerlendirilecektir.

Anahtar Kelimeler: *Finansal raporlama, Amerika, Çin, US GAAP, PRC GAAP.*

1. INTRODUCTION

Indispensable control tool for managers and accounting that helps planning is an important function and audit tool to address this challenge. The accounting science, which provides the financial expression of business activities, records these activities and prepares and reports these records, facilitating the audits of the business activities in the past and helps to plan them for the future.

Since multinational companies doing business in different countries, they face different accounting practices which changing country to country. There are various reasons that affect the financial reporting faced by multinational enterprises such as economic structure, political conditions, tax laws, applicable accounting standards, different accounting principles in different currencies, transfer prices, inflation, qualified manpower and culture. These factors change the results on reports.

The effects of financial activities will be evaluated and compared between financial reporting system of United States of America and The People's Republic of China which are the one of the largest two economies in the world. Comprehensive sample financial statements will be reviewed and detailed analyze will be made according to the People's Republic of China General Accepted Accounting Principles (PRC GAAP) financial reporting standards and The United States of America General Accepted Accounting Principles (US GAAP) financial reporting standards and will be summarized as a comparative table for reference of the business life. The purpose of the work of this comparison and evaluation is to provide accurate, reliable and transparent information to the decision makers and all kind of users who will use the financial statements. For this purpose, both balance sheet and income statement will be used. Different items will be compared with each other from different financial concepts. Changes will be made in relation to the items and the results will be evaluated.

The purpose of keeping records under US GAAP and PRC GAAP legislation is to provide complete accurate information about company assets and liabilities. The fact that the information contained in the financial statements is not sufficiently transparent

is supported by footnotes, indicating the degree of importance given to this issue. Accurate, transparent and easily communicable information forms the basis of the contemporary accounting concept.

The increasing spread of technological developments in the world and the diversity of economic activities necessitate the standardization of record keeping techniques and increasingly emphasize the necessity of uniform accounting. Today, the number of firms operating in different countries and thus holding records in more than one country is not small and this number tends to increase gradually. The concept of uniform accounting is one of the most important elements of the infrastructure of the free movement of capital. Common accounting standards have a positive impact on the performance of mergers and transnational companies, stock exchanges, investors. The aim of this study is to investigate the impact the Chinese and American International Financial System on the global economy. In this study, comprehensive sample financial statements will be reviewed and detailed analyze will be made according to PRC GAAP and US GAAP international reporting standards and will be summarized as a comparative table for reference of the business life. This research will present an overview of current international accounting standards, the current use of international standards by multinational business firms, an impact on the behaviors of the investors, creating a transparent reporting system for investors usages and to help investors in the global economy more transparent and understandable reporting system that can maximize investors reliability. The aim of this study is to investigate the impact the Chinese and American International Financial System on the global economy.

In this study, comprehensive sample financial statements will be reviewed and detailed analyze will be made according to US GAAP and PRC GAAP international reporting standards and will be summarized as a comparative table for reference of the business life.

This research will present the following:

- (1) an overview of current international accounting standards,
- (2) the current use of international standards by multinational business firms,
- (3) an impact on the behaviors of the investors,
- (4) creating a transparent reporting system for investors usages,
- (5) to help investors in the global economy more transparent and understandable reporting system that can maximize investors reliability.

2. ACCOUNTING CONCEPT AND ACCOUNT REGISTRATION METHODS

2.1 Basic Concepts Related to Account Concept and Operation of Accounts

If the account represents a person with a historical dimension and the person will have a debt and a credit due to his business activities, the account has two parties, one of which can be called a debtor and the other a creditor. As explained in the historical process of accounting, so-called accounts do not only represent the business or the owner, but also represent third parties, then the concepts of debt and credit apply to them. Nowadays, the accounts are opened in a very different way according to the concept of personality and value and value in a more modern way. Nowadays; opening an account for the first time to record an amount to the debit or credit side of the account; registration on the left side of this account; registering to the right side of the account; if the debtor gives a balance in debt and receivable offsetting, the account gives a debt balance; the balance of the creditor and the account of the creditor; account closure with equalization of debit and credit parties; In order to make the closing process, the basic concepts such as reverse recording have been developed by registering to the debit side of the account giving the balance of the credit, and the account keeping has started to be made in a certain order (Camfferman & Zeff 2007).

2.2 Account Registration Methods

The fact that the account is kept in a very different way from the 15th century in the historical dimension can be seen to be transformed into two different recording methods (Choi & Meek 2005).

Therefore, researching how the single registered method developed in Western Europe in accounts will help us to understand what double registration and single registration.

2.2.1 Development of unilateral registration system in Western Europe

J. H. Wlaemminck showed the following three important developments in the development of unilateral recording order; increase and spread of term buying and selling, the proliferation of trade companies, trade with a certain commission (Barniv, Myring & Thomas 2005). The most important notebook used during the one-sided registry period is the daily registry. In the use of these books, which is the most primitive method of recording, the books were later separated, and the transactions of the buyers and sellers were separated, and the daily transactions were started according to the transaction date. In addition, too many books and different records started to emerge with the arrangement of account records on behalf of the person. In the 14th century, bookkeeping methods developed and inventory, receivables-debt concepts, asset prices concepts were used, and books were used more regularly. In parallel with these developments, there were also improvements in the figures used in accounting. The Arab world's use of Arabic numerals in accounting 14th century. It has led Europe to adopt this method (Jaruga, 1987).

2.2.2 Unilateral recording method

Five stages were effective in the development of unilateral recording method. These are; Inventory accounting in which only material assets are recorded; Accounting based accounting that allows mutual accountability; The introduction of money (coins); using money and settlement together; the use of money in accounting and inventory requirements, i.e. the accounting of all accounting transactions. After these stages, we can say that money and reckoning create a breaking point in the development of unilateral record and evolving. After the above explanations; It can be defined as “a unilateral transaction is recorded only once Tor (Hill, 2003). At the same time, income and expense transactions are recorded only one side. Today, business account book, self-employment earnings book can be given as an example. In other words, one side of the book (left side) business expenses, the other side (right side) business income is recorded. In this method, transactions related to payments and collections are not recorded. This method is also called simple recording method. In other words, the purchase and sale of goods representing the income and expense items

related to the commercial transactions affecting the economic situation of the enterprise are recorded in one direction (Gaspar ve diğ erleri 2006).

2.2.3 Double sided recording method

Today, it is a method used especially in medium and large enterprises. We can say that the accounting recording technique, which is called double recording method, has historically passed through five stages. These (Hofstede & Bond 1998);

1. As a result of the development of the recording methods of the double-sided recording scheme began to be implemented in the simplest form;
2. Using as a technical method that allows automatic auditing with increasing the necessity of carrying out commercial transactions in total,
3. The use of accounting as a single and closed system and with a single unit of measurement;
4. The development of the accounting system not only in the form of balance sheet elements but in the form of income-expense and profit accounts,
5. It is possible to list the application areas of accounting as increase and development. The double entry method is defined as m recording every financial transaction into at least two accounts. In other words, while one account is credited, the other must borrow. Thus, we can say that each commercial transaction has two sides and concerns two sides (AICPA 2010).

The basic equation of this system is “ASSETS = RIGHTS. In other words, ASSETS = EQUITY + LIABILITIES” is the difference between equity and assets and liabilities (Selek 1990, pp.56-58). The books used in this system; the log book, the main registration element of this method, in which each business transaction is recorded; the logbook is also the large ledger in which each account is used; The inventory book and daily cash book in which the results of the large book and the breakdown of assets and rights are recorded (Selek 1990, pp. 60-61)

2.3 Account Plans and Coding Methods

After the historical analysis of accounting and the evolution of calculus to the present day, the studies carried out have been in the order and how the codes are coded. The accounts must represent persons, represent assets and values, and represent third parties and the owner of the business. At that time, the formation of the accounts should

be within a certain plan has become important. When planning the accounts, especially the historical motion, the following main accounts were formed; Capital accounts, Value accounts, Personal accounts, Result accounts and Regulatory accounts (Selek 1990, p.40). At the same time, the balance sheet accounts are divided into two as asset and resource accounts, and cost accounts and off-balance sheet accounts are used for the free use of the enterprise. Account plans have the following functions in terms of structure (Ball, Kothari & Robin, 2000); To ensure economic integrity and accountability between enterprises in the countries where it is applied; To provide unity of terms in business economics and accounting sciences; Facilitating the training of those responsible for settlement; Facilitate conclusions and comparisons; Facilitate the work of investigative and supervisory experts; To facilitate the organization of accounting. In order to better understand the issue, the historical dimension of the formation of the accounting plan and the examination of the accounting plan studies in today's world and the analysis of the accounting plan coding methods will provide us with access to the supporting data.

2.3.1 Historical development of account plans

After Luca Pacioli's double-sided accounting system in 1494, many writers and thinkers put forward opinions about the grouping of accounts, but the first and meaningful plan in history was developed by Schear in 1911, and in 1927 Schmalenbach laid the foundation for today's accounting plans. Schear calculations; money, goods, costs, receivables and payables, fixed asset values, capital and closing account, subsidiary businesses and private income. Schmalenbach, on the other hand, found the possibility of applying a closed accounting system based on a dynamic balance sheet approach in its own account plan” (Doupnik & Perera 2009). The main theme of this thinker is based on the calculations of neutral separation, making a clear distinction between income and costs. In other words, general accounting and cost accounting are evaluated as a whole and as a result, it becomes possible to find unit costs from records. After this formation, many countries in Europe and the world have passed into this system (Alexander & Archer 2003).

2.3.2 Account plan coding methods

It is emphasized which steps should be taken in the list of account plans. Now we will focus on how to make this listing. With its historical development, four different account plans are encountered. These; Letter of account plans, numerical account plans, mixed account plans, decimal account plans (Selek 1990, p. 44). Another grouping ; Letter coding system; initialized arrangement, letter memory arrangement, arrangement in alphabetical order; the arrangement according to the number order, the arrangement according to the number blocks, is divided into three as the decimal system and finally divided into three as the letter and numbered coding system. Initial letter account plans are the method of coding by taking the initials of the group they represent in active or passive. For example; Current Assets are “K” for “CA” and its sub-group, “B for banks. The letter memory coding method, which is called sequence letter (Selek 1990, p. 44), is the coding made by using alphabetical order of letters. For example, “A for Assets and “AA for Buildings and “AB for facilities. The letters “AAA are used sequentially for the Factory Building, which is also a sub-group of Buildings. In alphabetical order, all account groups in active and passive are coded in alphabetical order. For example; Asset “A” money and banks for active accounts,” B” stocks, “C” fixed assets, “D” as other assets. The ranking continues in the passive accounts; “E” short term debts, “F” long term debts. In the numbered coding system, letters are replaced by numbers. These is that, the numbered accounting system called the numbered account plans in the regulation of accounts "1" starting to be coded. For example, “1” safe, “2” banks, “3” trade-related goods, “4” receivables are coded as the main accounts (Selek 1990, p. 45). In the order of number blocks, a certain number block is called an account group and the sub accounts (master accounts) of this account group are coded with the numbers in these blocks. For example; “100-199” current assets are coded as “200-299” non-current assets and 100 a from the main accounts in current assets, checks received are coded with “101”. Decimal coding system which is made by taking samples from libraries and used almost all over Europe; The account groups divided into ten classes are subjected to a second separation according to the main account groups within themselves and finally the main accounts are coded in the third sub-division. For example, “0” fixed assets, “00” plots and buildings, “000” plots,

“001” buildings. Mixed letter and numbered coding system; first, the main account groups are coded with initials and the main accounts under it are coded with numbers. For example; Current Assets are coded with “CA and its sub-main accounts are cashed with “CA-1, and banks are coded with “CA-2”.

2.4 Accounting Systems in Practice

There has always been a debate about the need to distinguish between general accounting and cost accounting or to examine both accounting together when accounting systems are used in the world. These debates brought along two opposing views (Hill 2003). The first one is the monist system, which considers general accounting and cost accounting, and the other is the dualist system, which asserts that these two areas of accounting are different and that the relevant accounts should not be taken together.

2.5 Monist Accounting System

The first accounting system says that the general accounting and cost accounting in relation to each other as the extreme one and measure measured one for the severity of this association. An extreme accounting system, within the country's accounting framework totality that connects these two accounting under one roof Printer. As described above, Schmalenbach' s account class is one of the first organizers of the accounting plans in defining the system (Gaspar ve diğerleri 2006);

- 0-Fixed assets and long-term capital accounts,
- 1- Current assets and short-term debt accounts,
- 2- Non-operating expense and income accounts,
- 3- Stocks,
- 4- Expense type calculations according to their natural characteristics,
- 5- Expense type calculations according to functions,
- 6- Expense locations accounts,
- 7- Expense carrier accounts,
- 8- Income accounts,
- 9- The closing accounts are illustrative.

As can be seen in this example, the harmony and correlation between the two accounting is provided by direct accounting plans (Mckenzie, 2003). The first metered

system is; within the framework of a country's account, hence in the accounts plans of institutions and enterprises, the accounts of assets, capital, expense and revenue accounts of financial accounting and the types of costs, expense places and expense carriers accounts in the same extent, thus ensuring harmony and connection between these two accounting, it is the totality that brings these two accounting under a certain degree (Frederick ve diğerleri 2002). The difference from the extreme system is that the two accounting systems are not gathered under one roof but only at a certain level. This means that the entire flow of cost accounting does not need to be shown in general ledger accounts. Account accounts do not include all accounts related to cost accounting. The related accounts are included in the “production jobs collector” account. The best example of this system is the account framework of the German Economic Court;

- 0-Fixed assets and long-term capital accounts,
- 1-Current assets and short-term debt accounts,
- 2-Fees, material and material calculations,
- 3-Common expense type accounts,
- 4-Expense type calculations according to functions,
- 5-Production accounts,
- 6-Expense carrier accounts,
- 7-Income accounts,
- 8-Special discrete cost calculations,
- 9-Closing accounts.

In particular, the account plan is organized according to the segmentation in the balance sheet rather than the internal activities of the enterprise (Mackevicius, Aliukonis & Bailey, 1996).

2.5.1 Dualist accounting system

Likewise, the second accounting system is divided into two. Excessive accounting system; Issued within the framework of a country's account, therefore, only the financial, asset, capital, expense and revenue accounts of the financial and accounting accounts semi, intermediate, subsidiary and finished goods exchange accounts. (Printer 1990, p. 182). As it can be understood from this, only the intermediate, semi-

finished and semi-finished stocks are linked with the accounting plan. The best account plan example;

- 1-Money, receivables, active current separation,
- 2-Articles, materials, goods and products they produce,
- 3-Basic investment constants,
- 4-Obligations, passive current separation,
- 5-Equity,
- 6-Consumption of substances, materials and goods,
- 7-Labor costs,
- 8- I have expelled, capital and expenses and other expenses,
- 9-Sales revenue and other revenue,
- 10- Empty or conditional connection, opening and closing accounts can be given its (PricewaterhouseCoopers, 2010).

Measured second accounting system; General within the framework of a country's account, hence, in the accounting plans of the institutions and enterprises, the financial, asset, capital, expense and revenue accounts the accounting and production stock amounts; financial accounting. From the definition, financial accounting and cost accounting are carried out separately, but in accordance with the system, the cost accounting accounts are given a little place (<http://www.iasb.org/IFRSs/IFRs.htm>).

The French General Account Plan in 1947;

- 1-Continuous capital accounts,
- 2- Fixed value calculations,
- 3-Inventory accounts,
- 4-Third party accounts,
- 5-Financial accounts,
- 6- Expense types according to their natural characteristics,
- 7-Income types according to their natural qualities,
- 8-Result accounts,
- 9-Analytical cost accounting accounts,
- 10-Offsetting accounts.

2.6 Types of Basic Financial Statements and Financial Statements

We discussed above the word account and its link to accounting. Computing is the combination of numbers and accounting while keeping numbers in a regular way. The continuous development of accounts throughout history has led to the development of terms such as account keeping, bookkeeping and account plan. These accounts also ultimately carry out the task of showing them collectively to inform the parties concerned about the business. In the presentation of these results, the accounts were first arranged on behalf of the person and then the organization was organized on behalf of the entity in accordance with the concept of the personality and then continued with the arrangement of accounts representing the business, business owners and third parties. Here, representing the entity as a person means accepting that the entity has assets and resources that provide these assets. Here, the table or the table representing the business assets and resources is called the balance sheet and it is provided to show the business assets and resources collectively. Nowadays, the second purpose of the enterprises (the first is to fulfill social responsibility) to make a profit allows us to see the level of business activities. In order to be presented in this profit, a table comparing the income and expenses of the company is needed. In the historical process and according to this result to be drawn according to the above narratives, it is necessary to examine the historical dimension of the tables that constitute the main subject of our study and to know how it evolved until today. In this topic, the historical dimension of the balance sheet and income statement, which are the two main tables, will be examined and the current formation of the balance sheet and financial statements will be examined without mentioning the accounting theories and theories mentioned above.

2.6.1 Emergence and development of balance sheet

Historically, the formation of the balance sheet was formed by inductive method. In other words, first the accounts, then the books where the accounts are kept and then the result tables have emerged. Then, in this topic, it is appropriate to observe the calculations that are effective in the formation of the balance sheet or income statement by following this rule and then to examine the formation process of them.

2.6.1.1 Formation of balance sheet accounts

The use of the word account, accounting and bookkeeping concepts as well as the introduction of numbers in the holding of these accounts also affected the emergence of the “Cash” account, which forms the basis of the formation of the balance sheet. When the numerical values of income and expenses are compared in an account record, the result is equal to the cash value in our cash account. In Old Rome, the use of the cash account was given names on both sides of the account. In other words, the cash account comes first as a table in which income and expenses are monitored. In this form, the first of the accounts constituting the balance sheet is the “cash account”. After the cash account was used as an income and expense account, the terms “debt and credit” have been used for this account since the middle ages. In this way, the fundamentals of the double-sided recording method will also be laid with this calculation usage technique. Accounts receivable and debt accounts have emerged not only for income and expenses but also for collections and expenditures. This situation in the formation of 40 other accounts that are kept in different accounts outside the cash account is the development of the foundation (Beaver, 1989). The first of these developments is undoubtedly the formation of the concept of value mentioned in the development of accounting, whose historical dimension is examined, and the formation of value calculations in parallel. In other words, the fact that the accounts represent the persons and consequently these persons are formed in parallel with their accounts receivable and debt, and these persons are also the persons who create the asset and resource elements. The double-registered method also shows us that individuals have an asset and a source. In this respect, these assets and resources express a value. The answer to the question of the value at which the value accounts should be recorded in the Y.Y., i.e., the records of goods, fixed assets and other debts, is generally the purchase price or the current market price. The valuation of these value accounts, which are outside the cash account, was also made by taking these two price elements into consideration (Gordon, 2019). The formation of value accounts, together with the formation of assets and resources of enterprises, this development has affected the formation of profit and loss accounts. In other words, if the entity has a person and this person's capital, there will also be profit and loss accounts affecting the capital other than this capital. Because capital is an element that partners put in and expect profit (loss) in return. The entity considers the capital as a resource account that

constitutes its assets, necessitating that this capital should be formed in different accounts showing the profit or loss to be obtained. The formation of these accounts also necessitated the inventory of the results of the accounts required for the formation of the balance sheet values. In order to calculate the operating profit or loss, the entity must be able to see the difference between assets and resources or the difference between income and expenses. Inventory counts are common in accounting developments in Ancient Egypt, Ancient Greece and Ancient Rome. It was found that agricultural and animal products were evaluated by counting in clay tablets. This is a valuation process and a historical process that bases the formation of the balance sheet (Ball, Kothari & Robin 2000). At the end of the inventory process, that is, when they compare their assets and liabilities, enterprises encounter a surplus value in their hands. That is now capital of value. In other words, the profit obtained was increasing the capital and the loss was decreasing the capital. These decreases were reductions in assets or increases in debts. Or vice versa were increases in assets or decreases in debts. After Y.Y., the capital account was frequently used when this situation was noticed. The safe means "your money and securities", capital and "the values you own and all the assets you have at that moment". Accordingly, it can be understood how it evolved in the process from the cash account to the capital account in the formation of accounts in the balance sheet.

2.6.1.2 Formation process of balance sheet

It is stated that the word balance comes from the Italian word *anc bilancia ina* which means balance, balance and equilibrium and is derived from the word *ank bilank* which means balance. It is said that the birth of the accounts in the balance sheet arises from the fact that each account is linked to another account. Keeping the income-expenses in the cash account and the emergence of value accounts and the emergence of the capital account with their inventory shows this commitment. Before the concept of balance sheet, two developments helped to create the balance sheet. The first one is the existence of the remaining accounts, i.e. the remaining debts or receivables, and the other is the total sum of these remnants (Choi & Meek 2005). In the 16th century, the emergence of the closure of these accounts at the end of the year in the historical process led to the emergence of the trial balance, in other words, the balancing of the accounts in this century. The development of the double-registered method in Italy led to the opening and closing of transactions and accordingly the preparation of the

opening balance sheets and closing balance sheets. In this way, the accounts began to be classified. This classification provided the birth of the balance sheet. With the developments in Spain, the balance sheet was shaped with state accounting and its legal dimension, while the economic dimension of the balance sheet was dealt with in Germany. In the Netherlands, thinkers also contributed to the balance sheet by separating the accounts into clusters (the accounts are divided into three groups), and in fact laid the foundations of the main equation of the balance sheet. The balance sheet consists of assets “A”, capital “K” and liabilities “L”. Then they found the result $A - K = L$. In England, Dafforne prepared the transition of the balance sheet to the registration process by calling one of the nine notebooks “inventory books in the textbook in 1634, and in France the separation of synthetic” and “analytical” accounting was explained by the following three views; etymologically the balance sheet is a double scale, the symbol of the double-entry accounting method, the document that determines the financial outcome. In the following period, in France, the trade decree bearing the name of Colbert gave a legal and financial dimension to the formation of the balance sheet with ten articles that did not explain the balance sheet but referred to the inventory method. With the fact that accounting was a science in the 19th century, the balance sheet is now used in real terms. Especially Claperon, knowing that his inventory is a table reflecting the results of the books, has scientifically grounded the formation of the balance sheet. In this table, showing the profit separately without adding to capital has given a great meaning to the enterprises that developed very much in that period. In the 20th century, the balance sheet could now be used literally. Because the principles and arrangement of balance sheet have been determined. Assets and liabilities represent the assets and liabilities of the balance sheet and the assets are allocated as capital and liabilities and are not added to the capital (Alhashim Dhia & Arpan 1988).

2.6.2 Emergence and development of income statement

Since the development of the income statement cannot be achieved without the development of the balance sheet, the delay in the development of the income statement has been realized depending on the development of the balance sheet. However, since the income statement is named as showing the profit and loss for years, we can say that this name is also delayed for this reason. It has completed its process

with a development that extends from the concept of profit to profit-loss account, from the profit-loss statement, to the income account and finally to the income statement. Then, it is useful to examine the formation of the income statement starting from the profit and loss account formed in the single-sided and double-sided registration system.

2.6.2.1 Formation of profit and loss accounts from single record and double record method

Historically, in the income statement in the accounting process, first, profit and loss has occurred. Traders have tried to find profit and loss primarily in buying and selling goods. However, in the historical process, it is revealed that the profit and loss of a ship or a fleet must be calculated before and after the fact of the enterprise and the volume of activity of the enterprises or before the start of the overseas trade of the enterprises, the profit and loss of one or two goods should be calculated. Therefore, the need to keep a profit and loss account for the calculation of profit or loss has thus increased. Therefore, due to the increase in business activities and the increase in the number of transactions, the transition to the accounts of periodic profit or loss was compulsory. As we recall, we said that one-sided recording method usually uses three notebooks. These; manuscript book, daily book and big book. There was no profit and loss statement in the unilateral registration method, there was a profit and loss account. However, profit and loss were calculated by the difference between the capital at the end of the period and the beginning of the period. However, in the double-entry method that emerged in the 14th and 15th centuries, traders used the balance sheet and profit and loss together to compare the assets and liabilities of the balance sheet and the capital as profit. The examples of Dantini in his work are illustrative. It is understood that the financial statement arrangement named as *anc bilancio de* has a structure for determination of profit and loss. This is one of the first studies on how profit and loss are handled in the double registration method. In the subsequent developments, especially in the works written by Pietra and Flori in the 16th and 17th centuries, the book led to the separation of the profit and loss statement and the balance sheet by creating three separate accounts, the profit and loss account, the balance sheet account and the capital account. have done the work (www.businessdictionary.com/definition/International-Accounting-Standards-IAS.htm). The concept of profit and loss account continued until the 19th century.

2.6.2.2 Formation of income statement from profit and loss accounts

In France, the law published in 1867 obliged to present the information in the profit and loss account. This meant that; The profit and loss account has now become more important for businesses, and the information in this account must be properly formed. Here is a new law issued in 1948, “b-profit or loss from internal activities; It is emphasized that it should include the tax elements on extraordinary profit or loss, extraordinary provision accounts and operating profit. In Germany, this was further developed and regulated in detail on the Commercial Code enacted in 1931 and the elements in the profit and loss account. According to this law; “I-Costs side; wages and supplements, social expenses, depreciation of fixed assets, other depreciation, interest, taxes on company assets, other expenses; II-On the revenue side; revenue, participation incomes, interests and extraordinary incomes in fact, almost all of them are shaped similar to the accounts used in the income statement today (G7, 1999). The basis of the current income statement was laid in 1917 with a vertically arranged income statement applied in America. This table; “Gross income, net sales, gross profit on sales, net profit on sales, gross profit, net profit and profit (or loss)” under the main headings and “expense items below (for example; price reduction ”and subheadings of net sales ilk were the vertical items, which consisted of the first items consumed, direct labor, operating costs - the goods being sold mal. After this example table, income statement arrangement forms and examples have emerged in many countries of Black Europe (Sec 2009).

2.6.3 Current situation

In the formation of the balance sheet, especially the concepts of static, dynamic and organic balance sheet which are explained in the title of German School and Theories are explained. These theories and static, dynamic and organic balance sheet theories will not be emphasized much. However, nowadays, the formation of the balance sheet is especially regulated by these theories and theories. In the static balance sheet theory, it is stated that the balance sheet should be regulated with the following principles; “The balance sheet shall provide information on the status of the entity and ensure supervision; the balance sheet should be divided according to its main duties, rights relations and risks; the balance sheet shall contain reserves, not reserves, reserved in accordance with the provisions of the law; the valuation should be based on the supply

value or the lowest value; profit and loss is a capital account ”(Ashish, 2013). On the other hand, the dynamic balance sheet is the theory that the balance sheets reflect not only one year but also the whole business life. In the organic balance sheet; It is said that the financial situation of the company is static at a certain moment, but it is affected by the current developments and the current market movements due to the economic developments and the state of the country's economy and becomes dynamic in the balance sheet (Arzova 2009, pp.78-82). Likewise, profit and loss have been interpreted differently by many today. From the accountant's point of view, profit or loss is calculated “via equity comparison capital”. According to this opinion, the profit or loss “consists of the difference between the period-end equity amount and the equity at the beginning of the period or“ the period-end equity and equity difference at the beginning of the period is deducted from the value added by the partners, the value drawn by the partners said its. At the same time, there are commercial and financial profit concepts. Commercial profit is the profit distributed to business partners. In other words, whether the tax laws are accepted or not, all expenses for the period are deducted from the period income and there is commercial profit. Financial profit; tax laws. In other words, some expenses are deducted from income and some expenses are added to income and the tax base is found it. Profit from saleswoman perspective; Is the profit found by “comparison of sales amount and cost”. In other words, the cost of the product is calculated first and a certain amount of profit is added to this cost. In this view, the concepts of cost-plus method, full cost basis, variable cost basis and fixed profit targeted pricing have been formed. One is also calculating profits with the opinion of producer-costliest and marketer. According to this view; profit calculation of profit through targeted cost” is required. In other words, by managing the costs of future products, by managing the costs of existing products, by taking advantage of the entrepreneurial spirit of the labor force, the desired cost is deducted from the sales price and the target cost is determined (Arzova 2009, pp.82-86). Today, these views developed in Turkey as unbundled financial statements include the financial statements and assist statements, financial statements; balance sheet and income statement; The cost of sales table is classified as fund flow table, cash flow table, profit distribution table and equity table. Since the balance sheet and income statement constitute the main theme of our research, research has been carried out for the current definition and operation of these statements. Other tables have not been given much attention. The accounts that make up the income statement are now followed in a

separate account group and the list of accounts in this group has been effective in the formation of the income statement. In the grouping of income statement accounts, firstly income accounts; gross sales, ordinary income and profits from other activities, extraordinary income and profits and expense accounts; discounts on sales, cost of sales, operating expenses, ordinary expenses and losses from other activities, financing expenses are classified as extraordinary expenses and losses. There is also a net profit and loss account group, which is the final account which enables the comparison of income and expense items. When the deductions from gross sales are deducted in the income statement, “net sales” are deducted from net gross profit ”after deducting the cost of sales from net sales, operating profit is deducted from operating profit, operating profit” is added to operating profit and other operating expenses and financial expenses are deducted. table, and ultimately by adding and subtracting extraordinary income and expenses, and table profit for the period”. The table is prepared as a process which results in the deduction of the tax calculated from the profit for the period and the net profit to be added to the balance sheet (MSUGT 1992, p. 1).

2.7 Formation Process of International Accounting Standards

The accounting system is shaped according to certain rules for each country. For example, the structure of the state, the cultural structure of people, the cultural structure of commercial activities, economic values, the economic structure of the country, the legal structure of the country are the factors that shape the development of accounting systems. These elements can be given as an example of the examinations made above. While the development of accounting was mostly driven by state and economic developments at the beginning of history, the development of this system is now considered globally, and we can see that the cultures of the countries are considered uniformly and especially the internationally developed firms and developing technology direct the development of accounting systems. In transferring the data obtained in the creation of accounting systems to information users, the information regarding the business activities should be accurate, reliable, meaningful, appropriate, comparable. Because accounting systems are of importance especially for businesses. Therefore, the internationalization of the results of the globalization and the impact of technology in the internationalization of businesses again gaining importance in the

international level of the activity results of the accounting system needs to emphasize the need to standardize (Deloitte, 2011). The three models stand out in the development models of accounting standards. The first is the opinion that accounting standards should be determined through legislation. According to this view, standards should be determined by law and regulations. However, the criticism of this view focuses on the fact that the standards established through legislation impose certain costs on some groups and benefit some groups. Since the role of the state becomes important, it will be a deterrent in penalties. Another view is that standards should be determined by private sector regulatory agencies. In fact, this view concentrates on the need to reduce the role of the state through legislation and to involve all relevant groups in the formation of standards. However, the criticism of this view is that these institutions cannot have sanction power. The final view is that the public sector delegates the authority to set standards to an autonomous organization. In this view, it is based on the characteristics of private institutions and that it should give the authority to sanction this institution in its state. This last view is a more adopted view (Ball, 2006). Harmonization of accounting standards; the internationalization of capital markets, the formation of multinational companies, the formation of independent audit firms, economic unity goals, developments in international regulations and the benefits of developing countries will provide significant benefits (Eric, 1999). The following benefits come into prominence in the harmonization of accounting standards; the greatest benefit is that it enables international information to be comparable, while others reduce the waste of time and money in consolidating different financial information, aiming to maximize and coherent the local economic, legal and social level around the world. Another benefit is that these standards are guiding in underdeveloped countries, removing differences between countries, reducing the cost of financial reporting and encouraging investors to invest in foreign capital markets. There are some problems in the formation of international accounting standards. These is that; the absence of an internationally sanctioned authority, the existence of accounting systems preventing change, the different economic consequences brought by standards to countries, and the ineffectiveness of professional organizations in some countries. At that time, the fact that the globalizing world should be comparable in companies operating in the same sector and working in many countries will come to the fore. Therefore, it would be correct to investigate how international standards have developed to help with the main topic of this study. This issue will also give us an idea

of how international accounting systems are formed. Then examination of Turkey's size and how it was formed and the introduction of international institutions practice models that give direction to international accounting standards primarily under these topics and in some countries these standards will be accurate.

2.7.1 Accounting models and studies in some countries

We can group accounting models in three main groups:

1. British-American model,
2. Continental European model and
3. South American model.

The British-American model is intended to serve the decision-making and public disclosure of investors and lenders in countries such as the United Kingdom, the United States and the Netherlands, particularly in large and developed capital markets. The existence of multinational companies in these countries leads to the implementation of this model.

Continental European model; This model, which arises from the relations with the banks that make up the capital of the business world, has found its application mostly in European countries and Japan.

South American model; Due to the chronic inflation problem in almost all countries in South America, inflation-adjusted accounting model reflects the effects of inflation. In this context, it would be appropriate to examine the development of standards in the United States, England, Germany, Canada, Japan, People's Republic of China and Russia. After the financial crisis of 1929 in the United States, the 33 securities law and “securities exchange law published in 1933 were passed. The Securities Commission (SEC) was established for the implementation of these laws. This commission generally limited accounting standards to the audit function and increased the effectiveness of private sector regulatory bodies for accounting and independent auditing. The most important of these organizations is the American Institute of Certified Public Accountants (AICPA). AICPA-CAP (Committee on Accounting Procedure) was established in 1959 and the Accounting Principles Board (APB) was established in 1959-1973. In 1973, the APB, which was established instead of ACP, was criticized for taking over eight major companies of the country”, which led to the establishment of the Financial Accounting Standards Board (FASB) in 1973.

The SEC regularly monitors the activities of the FASB. In the UK, the Institute of Chartered Accountants in England and Wales, which consisted of professionals in accounting practice until 1970, was influential. Later, the Accounting Standards Setting Committee (ASSC) was established to eliminate the difference in accounting practices. In 1976, it became the Accounting Standards Committee (ASC) with the support of the CCAB (CCAB). As the lack of sanctioning power of ASC, the approval of its members in CCAB, the slowdown of activities and the introduction of the company law in 1989, the Financial Reporting Council (FRC) was established as the responsible body for the standard setting process. Then, Accounting Standards Board (ASB) was established and standards were developed and published. In addition, the Financial Reporting Review Panel (FRRP) was established in accordance with ASB and FRC (Zori, 2016). In Germany, accounting practices followed a uniform accounting system. Historically, this system has been implemented since Germany has long-standing accounting experience. The fact that they have this system has not only been established until recently in the formation and regulation of these standards, but only the German Institute of Accountants has made comments and explanations on these issues. However, in 1998, the German Accounting Standards Committee (GASC), which was responsible for establishing accounting standards, was established. GASC is structured as an independent organization as in the English-American model. In Canada, the Canadian Institute of Chartered Accountants (CICA) is the national organization for the establishment of accounting and auditing standards. Under CICA, there are organizations such as Accounting Standards Board, Auditing Standards Board, Control Criteria Board, Public Sector Accounting Board, Research Department and Accounting Standards Supervision Council. The most important organization here is the Accounting Standards Supervision Council (Kirton, 1999). In 2001, Japan established both the publicly funded Japan Accounting Standards Board (ASB of Japan) and the private sector financial accounting standards foundation (FAS) to adapt to international developments. This development is a new development that shows us that both public and private sectors will be effective in the formation of standards (Bradshaw et al, 2010). The People's Republic of China has gained importance in the world with its population and rapidly developing economy. In 1992, the Shanghai and Shenzhen stock exchanges were published, and the first regulation was published by the Accounting Regulation for Public Offering Enterprises. It has been obliged to regulate many accounting practices reflecting the Soviet Accounting

system in accordance with International Accounting Standards (IAS). And IAS has become compulsory for listed companies. Furthermore, Chinese Accounting Standards were published in 2007 and development continued. In Russia, in 1998, 20 new standards were issued within the scope of the harmonization program with IAS and IFRS (International Financial Reporting Standards) and Russian Accounting Standards were established (Smith, 2012).

3. OVERVIEW OF THE REPORTING STANDARDS AND GLOBAL STAKEHOLDER'S FINANCIAL REPORTING SYSTEMS

3.1 The Formation Process and Present Structure of the American Accounting Principles

The fact that the United States of America (USA) is named as superpower as of today and being one of the leading countries in the world in many fields such as scientific, military, informatics, communication and technology has led to the establishment of international giant enterprises in these fields. This has led to the necessity of these giant enterprises to operate in many countries and to prepare the annual reports prepared in these countries in accordance with the USA. In this sense, monitoring of the activities of the countries operating in many different countries is also important. The frauds that arise in these audits, especially through financial statements, have forced the US to set many new standards. As a result of this obligation, the standards brought about harmonization in accounting in the whole world. In this context, the fact that this country is a pioneer in the world in terms of its development and the preparation of standards, we believe that it would be correct to examine the accounting structure of this country USA. While GAAP is a set of concepts, principles and standards for the needs arising from the disruptions in practice, it is formed in line with the principles of "Priority of the Essence" and "Threshold of Materiality and The concepts are applied on the Balance Sheet, Income Statement, Cash Flow Statement and Comprehensive Income Statement from the financial statements. The main objective of US GAAP is to ensure the safety of investors and to make the relations between different sized companies in the market transparent for investors in order to inform the third parties in a healthy way. In line with this objective, US GAAP has been cautious about the time when revenue can be recorded as income for the safety of the investor and it has not been accepted to record the revenue before it matures or is earned. In this context, US GAAP is regulated by certain procedures. The most important thing here is to facilitate understanding of the principles in a common

language. For this purpose, Extensible Business Reporting Language (XBRL) has been developed and the simultaneous preparation, reporting and analysis of information has affected the concept of time in accounting fundamentally and positively.

This topic will start with the development of accounting in the USA and result in an examination of the accounting organization. However, the fact that the United States is an Anglo-Saxon country has developed in parallel with the UK accounting system we have examined before. Hence, the historical development of the US accounting system was limited to the discovery of continental America and was shaped by the cultural and economic factors of the British. Therefore, this issue has not been emphasized. The original review is more on what the principles apply to the preparation of financial statements in the United States and how they work with the accounting organization.

3.2 Formation of accounting principles in the united states in the history process

With the settlement of the first British colonies on American soil, Bookkeeping, which was known as then, showed its effect in trade in a very short time. However, it took about 200 years for Bookkeeping to turn into Accounting, and it took 300 years for the Accounting Profession to form and establish a solid foundation in today's modern definition. In the period called the Colony Period, the records kept in the book were extremely simple. Most of the records were made unilaterally and / or verbally. Although simple, these records are very important. The economic infrastructure of the colonies is generally formed in the form of exchange of goods (Barter). In addition, due to the long term of payment, these records are the only reliable source for both inventory of swap goods and breakdown of debts to be paid. Until the late 19th century, the terms bookkeeping, and accounting were used synonymously. The most important reason for this is the fact that the shareholders of the company are aware of even the smallest details and that simple bookkeeping methods are sufficient.

At the beginning of the 19th century, a small number of banks and large-scale companies started to operate. With the emergence of railways in the late 1820s, the number of companies increased suddenly (Ward, 1991).

Railway companies needed different indicators and information for proper management both during the establishment and during operation. These requirements

are; Cost Reports, Production Reports, simple Financial Statements showing business results and simple Ratio Analyzes emerged as additional reports to existing records were required. In this context, railways pioneered many issues as well as the formation of accounting in today's sense.

The increase in the number of companies increased the need for financial information, and the figures started to become indicative. All kinds of investors or third parties who do not have direct information about the Company needed and requested the Financial Statements. For the preparation of the financial statements, more detailed and comprehensive accounting principles are needed. Thus, the responsibility of accountants began to go beyond just keeping records, and the concepts of preparing and analyzing financial statements emerged. For many writers investigating the development of the accounting profession, the 19th century was the century in which Bookkeeping was transformed into Accounting.

Over time, the development of companies has led to the demand for qualified accountants. This demand naturally revealed the importance of education in trade and accounting. In spite of the existence of printed accounting and bookkeeping works and commercial schools at that time, important universities did not take accounting education into their programs for a long time. In this sense, the year 1883 is very important. At that time, the Wharton School of Finance and Economy, founded two years ago, opened its own accounting training program (Sass, Wharton at the Development of the Commercial Curriculum).

This was followed by other major universities and accounting education spread to the whole country level in a short time. One of the biggest changes in the companies in the historical process is the separation of Boss / Shareholder and Manager. One of the most important requirements that arise with this phenomenon is that an independent person informs shareholders and other third parties about the Financial Statements prepared by the managers. There is also an expectation that this independent person will check whether the Financial Statements prepared by the managers reflect the real situation of the company in order to protect the interests of the shareholders and therefore the Managers will check whether they are performing their duties properly. The need for independent eyes has become even more important in terms of verifying the announced figures of companies in large mergers that accelerated in the late 19th century. Thus, the concept of independent auditor, whose responsibility is not directed to the managers but to shareholders and potential investors, has been well-formed and

became an integral part of the accounting profession as it entered the 20th century. The theoretical and practical knowledge that these people should have gradually increased. The year 1913 is one of the important turning points in the US in terms of the accounting profession. With the 16th annex to the Constitution, the concept of Corporate Tax at Federal State level has emerged. Although companies are taxing with some kind of Income Tax taken from the institutions before this date, Corporate Tax can be considered as the first regular and systematic tax in this field. This regular tax obliges companies to settle and adjust their accounting infrastructure. Many companies have introduced the concepts of depreciation or provision-based accounting that they have not yet implemented. As tax rates increase, services in this area have become more important and accounting and consulting firms have begun to grow rapidly.

First, in 1896 the New York State Certified Public Accountant (CPA) - in Turkey, CPA / Certified Public Accountant and has held the title of anti-revealed an examination system in order to obtain this title. New York was soon followed by other states.

Today, the American Institute of Certified Public Accountants (AICPA), the organization of all CPAs in the United States, was first established in 1887 and took its current name in 1957. In addition, the Institute of Management Accountants (IMA) was established in 1919, which is now accepted as the brain of management accounting worldwide. Today, IMA manages the Certified Management Accountant (CMA) certification program, which is accepted as the most valid indicator of competence in the field of Management Accounting all over the world.

3.3 Until the American central bank was established in 1913

Until the American Central Bank was established in 1913, no accounting rules or laws were adopted by the US Administration. The publication of Joint Accounting by the Central Bank in 1917 was the first step in this area. The same work was developed in 1918 and re-issued under the name of Methods to be Applied in the Preparation of Balance Sheets. In this booklet, the methods to be followed are stated in the balance sheet and profit / loss statements. These methods, which were proposed in the first stage, were not much in demand. The law required a crisis to settle, and the collapse of the stock market in 1929 and a major corruption detected by the New York Stock Exchange (NYSE) overturned financial markets for years. Following the crisis, the

1933 Stocks Law, which is still valid today, was enacted. This law obliges all companies whose shares are listed on the stock exchange to be audited by a CPA. In addition, certain responsibilities are imposed on the CPAs by law. Immediately a year later, the 1934 Equity Law was enacted. This law established new Securities and Exchange Commission in those days (SEC) (CMB counterpart in Turkey) has obtained the right to issue new accounting principles. In 1938, the SEC transferred the right to publish accounting principles to AICPA; AICPA also established the Accounting Procedures Committee (CAP), which is a subsidiary of the AICPA. The CAP published 51 Accounting Research Bulletin (ARB) until its closure in 1959. In 1959, again under the AICPA, the Accounting Principles Board (APB) was established and took over all powers of the CAP. In 1973, when the APB delegated its powers and closed down, the APB published thirty-one principles called Opinions. 1973 is a very important year for the recognition and applicability of the current United States Generally Accepted Accounting Principles (US GAAP). That year, the Financial Accounting Standards Board (FASB) was established, independent of AICPA. This organization is still the most authoritative institution of US GAAP. To date, FASB has issued 168 Financial Reporting Standards (FAS).

3.4 Codification i- ii / coding project and changing structure of US GAAP after July 1, 2009

In contrast to the Accounting Principles published under a single heading in many countries, US GAAP is all the principles that have been published or adopted in time by the organizations and some of the above-mentioned organizations. AICPA clarified US GAAP by its Communiqué No. 69 of the Generally Accepted Auditing Principles (GAAS), which set out a US GAAP hierarchy, that is, a list of priorities. Accordingly, the following ranking applies to the rule priority in accounting (Williams, 2009):

3.5 Hierarchical structure of the United States generally accepted accounting principles (US GAAP) until 1 July 2009

Level A:

FASB Standards,
FASB Reviews (FIN),
APB Opinions,

ARB Releases.

Level B:

FASB Technical Bulletins (FTB),

AICPA Industry Specific Audit and Accounting Guidelines,

AICPA Status Reports (SOP),

FASB Certified Board of Directors.

Level C:

The New Situation Team's Decision Bulletins (EITF Positions),

Disclosures of SEC and FASB Boards on Special Cases,

AICPA's SEC Implementation Bulletins (AcSEC PB),

Unapproved FASB Mergers.

Level D:

AICPA Accounting Reviews (AIN).

In the event of any discussion or uncertainty, the information above and / or description takes precedence over implementation.

FASB Accounting Standards Coding entered into force as of 1 July 2009. For more than four years, more than two hundred people in the related organizations have worked on this project, which is very important for accountants and users of financial information. Throughout 2008, FASB members had the opportunity to read and review the coding, to have an idea of the content, structure, and future consequences. Throughout the year, FASB members were asked whether the coding properly reflected the applicable standards.

3.5.1 Purpose of coding

It is designed to inform the members about the new structure and to obtain feedback before the coding becomes officially valid if there are problems with the content of the coding. The coding, announced in January 2008, was the result of the efforts of the Codification and Retrieval Project team. As we can guess from its name, the primary purpose of this group was to encode US GAAP. Their second goal was to design an access system that would make it easier for coding users to access the information they need. Over the past fifty years, US GAAP principles, which have become legislative, have been established by various institutions with a standard setting function. These

standards may not always be consistent and logical. In addition, there has been a significant increase in the number of financial reporting standards in the last two decades. All this exacerbates the difficulties faced by financial reporting professionals in the use of US GAAP. The FASB initiated this project to overcome the problems after the concerned and the Financial Accounting Standards Advisory Council (FASAC) expressed their concerns on these issues. The aim of the project is to code and simplify US GAAP. The methods followed for this purpose are (FASB Accounting Standards Codification (v 1.05), 2009):

- Reducing the time and effort spent in solving the problems arising from accounting research,
- Reducing non-compliance with standards by improving the use of relevant resources,
- To provide accurate information through real-time updates when new standards are published,
- To support the FASB in the research and convergence studies required in the standard setting process,
- Ensure that content not included in the coding is not official.

3.5.2 Necessity of coding

US GAAP had difficulties in terms of use and understanding until 2005. Due to this disorganized structure of US GAAP, the necessary and relevant resources for researches might not be available. The users had to make a lot of effort to make sure they found the right thing to do. Its volume, complexity and lack of a holistic structure made it difficult for professionals to follow up-to-date developments and to train new staff, thus increasing the risks of financial reporting and creating inefficiencies, leading to higher costs. Coding simplifies the FASB's standard setting process in many ways. By gathering all relevant literature in one place, FASB will be able to apply the following issues more easily (FASB Accounting Standards Codification (v 1.05), 2009):

- When the coding which came into force on 01 July 2009 is completed, new sections are added,
- Adopting a model based on principles or objectives,

- Identify differences and ensure closeness with the standards issued by IASB / International Accounting Standards Board,
- Defining appropriate guidelines for new projects,
- Determination and abolition of outdated legislation,
- Identify the inconsistencies between the relevant parts of the legislation.

US GAAP legislation is the result of fifty years of efforts by many standard-setting bodies. The structure of the documents reflects the different sequences and sequential numbering standards used by each organization. As we have seen in our own research, sequential numbering makes research and information retrieval difficult. In addition, different documents make it difficult to use electronic databases for research.

3.5.3 Functioning of the coding system

The coding includes the following legislation published by various standard setters for private companies (<http://asc.fasb.org>):

- Financial Accounting Standards Board (FASB):

Tables (FAS), Comments (FIN), Technical Bulletins (FTB), Temporary Membranes (FSP),

- New Developing Topics Task Unit (EITF): Summaries, Title, Derivative Application Group (DIG) Topics, Accounting Principles Board (APB) Opinions, Accounting Research Bulletins (ARB), Accounting Comments (AIN). ,

- AICPA Resources:

- Status Table (SOP),
- Audit and Accounting Guidelines (AAG) (additional accounting guidance only),
- Including alerts raised by Application Bulletin 1 to Application Bulletin status
- Application Bulletins (PB),
- Technical Query Service (TIS) (for accounting software revenue only).

3.5.3.1 Non-substances not included in the coding

Matters such as Management Evaluation and Analysis (MD&A) or Audit and Independence which are outside the scope of the Basic Financial Statements are not included in the legislation. While the coding team was working on coding, it classified the content as substantive and non-substantive (FASB Accounting Standards Codification (v 1.05), 2009). Non-essential contents; it includes over-summaries of existing standards, past content and evaluations of previous practices, and members'

feedback summaries. The purpose of preparing coding; to capture and connect standards-based standards and application content to the system. In its study, the coding team evaluated some of the contents as relevant and others as non-substantive. Non-substantive materials are not included in the coding.

3.5.3.2 Content included in coding but not in legal regulations

Much of the content in the coding is taken from the current official accounting and reporting standards. Some of the items included in the coding have not yet been included in the officially valid standards. During the coding preparation process, the coding team identified several technical issues that required a solution for accounting (FASB Accounting Standards Codification (v 1.05), 2009). Some of these issues have been resolved in informal meetings of the coding team and FASB experts and FASB board members without the need for a public board meeting.

3.6 History and Preparation Process

The Financial Accounting Foundation (FAF) Board of Trustees approved the Codification and Retrieval Project in September 2004 to address these issues. One of the main objectives of the project is to create a strong and short-term website. Introduction one of the first things FASB did was a survey involving many stakeholders (FASB Accounting Standards Codification (v 1.05), 2009). The results of this study of US GAAP, which was answered by more than 1,400 people, were as follows: 80% of respondents believed that US GAAP was too complex. 85% of the participants believed that excessive and unnecessary research had to be done to find the required topic. 87% of the participants believed that a coding would make US GAAP more understandable. 96% of respondents believed that a coding would facilitate access to information when conducting research. 95% of the participants believed that FASB should carry out the coding purpose (FASB Accounting Standards Codification (v 1.05), 2009). It should be noted that the aim of the project is to create the coding and develop an electronic research and feedback system for end users. Therefore, the project team also asked the participants about the current research requirements and the usage expectations for the next five years. Some important results from responses from over 3200 people were as follows (FASB Accounting Standards Codification (v 1.05), 2009):

- More than 90% of the participants hoped to access the content electronically rather than a hard copy.
- The search techniques that participants requested to use were in order of importance: Browse by titles, Search, Go to address (quick access to a specific location).
- More than 97% of the participants stated that copy, paste and print functions are important features. In order to understand the coding, it is necessary to examine some of the decisions about coding format and language. Before the whole project started, one of the titles was developed as a prototype and tested on the prototype to see if the result met the expectations and whether the projections were reasonable. All parameters prescribed for such a heading were included in the test. All content linked to and outside the SEC was included its.

3.7 Structure of Coding

3.7.1 Areas

Fields are broad categories such as Assets or Liabilities and consist of headings.

3.7.2 Headlines

The headings are composed of relevant legislative groups and closely resemble the standards issued by the IASB. The titles are divided into four main areas (<http://asc.fasb.org>):

General Principles (Title Code 105): This heading relates to generally accepted accounting principles.

Presentation (Title Codes 205-299): These headings are for presentation purposes only and do not include identification, measurement and off-balance sheet issues.

Financial Statements Accounts (Title Codes 305-700): Coding headings, assets, liabilities, equity, income and expenses in the Financial Statements are arranged in a sort order (<http://asc.fasb.org>).

Other Transactions (Title Codes 805 - 899): These headings relate to more complex Financial Statement accounts and are generally for transactions. The titles include Mergers, Derivatives, Non-Monetary Transactions and the like.

Sectors (Title Codes 905-999): These headings relate to accounting issues specific to a particular sector or type of activity

3.7.3 Subheadings

Subheadings form subsets of a header (<http://asc.fasb.org>). They are generally divided according to their type or scope. For example, Operating Leases and Financial Leases are the two sub-titles of Leases. Within each heading, there is a general sub-heading that is prepared as a comprehensive guide for that title. Other topics may be created for topics not included in the general subheading. The following is an example to give an idea of how this works: There are two subheadings in the Balance Sheet heading; General and Accounting.

When the Balance Sheet is mentioned in paragraph 05-2, it is generally referred to the Financial Statement, both names being used interchangeably within the framework of the coding. In some cases, the General subtitle provides general guidance. In some titles, instead of general guidance, a variety of content may be provided that is not suitable for any other subtitle.

3.7.4 Numbering subheadings

Classification numbers between 00 and 99 are used for the subtitles of a given title¹⁵. The headings, particularly sector headings, may include subheadings that reflect general headings. For example, General Receivables heading 310; General stocks heading is 330 and agriculture heading is 905.

Agriculture title, receivables, stocks, etc. subheadings (<http://asc.fasb.org>).

The subtitle classification number is the classification number of the corresponding title. In this case; Agriculture receivables are 905-310.

- Agriculture Inventories are 905-330.

Let's look at another example: If we want to find the Cash subheading for the financial services sector; first Cash and Cash Equivalents (305), then Financial Services Sector Deposits and Loans (942) should be looked at.

3.7.5 Sections

Sections define, measure, explain and so on. A subheading such as: Each subheading contains the same sections; however, if there is no content available for a particular section, that section may not be included in the relevant subheading.

3.7.6 Classification codes

www.fasb.org, the FASB has developed the following multivariate classification system for classification: XXX-YY-ZZ-PP means XXX = Title, YY = Subheading, ZZ = Section, PP = Paragraph. SEC contents have an "S" in front of the section number. The following table contains the names of the sections of each subheading:

XXX-YY-00 Condition

This section contains references to published standards that affect the subheading.

XXX-YY-05 Overview and Reason for Emergence

In this chapter; - An overview of the subtitle and explanations of the reason for its emergence.

- The history of the standard setter, methods and principles or similar issues are not included.

- It may include elements that are generally considered useful for the user to understand the typical situations required by the standard.

- The requirements of the subheading are not summarized.

XXX-YY-10 Objectives

If there is an objectives section, this section specifies the main objectives of the subheading, but does not discuss the main principles of the subheading.

XXX-YY-15 Scope and Exceptions

This section describes items in which the legislation in the subheading applies or does not apply (e.g. companies, transactions, instruments or events). This section does not include actual accounting or reporting guidance. In many cases, the basic standards do not provide details of scope for companies. The FASB stated that the content applies to all organizations unless otherwise stated. If a title has more than one subtitle, the general subtitle often includes the common scope of the entire title, including other subtitles. The remaining subtitles refer to the general subtitle and address specific exceptions to the common general scope.

When using encoding, it is necessary to know that the general scope section is not a summary but forms the basis of the other subheadings. Another area to consider is related to overlapping or intersecting content. In this case, the majority of sector subheadings intersect with general headings. In these cases, users should pay attention to the scope of the sector title and the relevant general title scope.

XXX-YY-20 Glossary

This section contains all the terms used in the subheading. In many cases, the terms are taken from the Glossary of Terms of the original standard. In some cases, the term

is included in the original standard text. Coding also includes the Glossary of Great Terms, allowing users to access terms through standards.

XXX-YY-25 First Registration

This section provides information on the criteria, timing, and where to show them in the Financial Statements for the initial registration of a particular item.

XXX-YY-30 First Measurement

The criteria and amounts used to measure a particular item on the first registration date are determined. The section may sometimes be empty due to items not included in the initial measurement in the initial standards.

XXX-YY-35 Next Measurement

Subsequent measurement is particularly relevant to assets, liabilities and securities. Criteria and amounts used to measure a certain asset, liability or security at a date after accounting (depreciation, nominal change, amortization, depreciation).

XXX-YY-40 Subtraction from Balance Sheet

This section is particularly relevant to assets, liabilities and securities. Criteria for removing a certain asset, liability or share item from the balance sheet in order to determine the profit / loss to be generated are the basis for issuance (such as the method of determining the amount) and timing.

XXX-YY-45 Other Issues Related to the Presentation

The balance sheet includes other presentation topics related to cash flow requirements and impact on earnings per share.

XXX-YY-50 Description

In this chapter; There are specific disclosure requirements for a subtitle. It may contain references to the general disclosure requirements for items identified in the subtitle. For example; In the subheading of receivables, there is a link to general financial application conditions related to receivables.

“Disclosure Conditions, which may be included in the footnotes of the Financial Statements and other general headings related to the presentation, are not the subject of this section.

XXX-YY-55 Application Manual and Illustrative Explanations

In this chapter; application guidelines and explanatory examples that are part of the standards. Guidance on standards to be applied in simplified and generalized cases is guided. All relevant items are assumed to be significant for the amount (assumption that is above the Maturity Threshold). Coding distinguishes the implementation

manual and examples from the main text of the standards, but references and relates in both directions. In applying the standards in real situations, users are asked to use their judgment, and the application guide and explanatory examples are intended to help use this judgment. As the implementation guide and illustrative explanations cannot cover all possibilities, users must carefully consider the nature and conditions of the actual situations when applying the subheading provisions.

XXX-YY-60 Relationships

This section contains references to other sub-titles that contain guidance on that sub-heading. References refer to a substance that is contained in another heading, which is an element of another heading, or in some way associated with said heading. Simple references to relevant content are made, but do not include a full description of the link. While it is intended to include as many interrelated items as possible, users should not assume that these lists are all inclusive.

XXX-YY-65 Transition and Open Effective Date

This section includes references to content paragraphs related to the transition period. Transitional legislation is detailed in the text of the standards section. Upon completion of the transition period, the Coding Research System will issue past legislation and clarify new content.

XXX-YY-70 Removed Legislation

As of July 1, 2009, there is a definition, submission and transition process for the removed content. Users must refer to the original standards for the abolished legislation.

XXX-YY-75 XBRL Definitions

This section contains the relevant XBRL definitions for the subtitle.

3.7.7 Coding and SEC

Officially valid content published by the SEC is not included in the coding (Securities and Exchange Commission, 2009). However, in order to make coding more useful for publicly traded companies, relevant sections of the content published by SEC and comments from selected SEC experts and administrative guidance are also included in the coding for reference (<http://asc.fasb.org>)

These are as follows:

S-X Regulation,

Financial Reporting Disclosures (FRR) / Official Accounting Disclosures (ASR),
Comment Description (IR),

Guidance Issues of SEC Experts:

- Expert Accounting Bulletins (SAB),
- EITF D Title and SEC Expert Observer Reviews.

The SEC section of the coding provides technical information on how the SEC-related content is presented. The inclusion of SEC content is required for publicly to increase the ease of use. It should be noted that the SEC sections in the coding do not include all SEC rules, decisions, interpretations, and expert guidance. For example; content other than those of the basic Financial Statements, such as management evaluation and analysis (MD&A) or audit and independence issues that public companies are required to publish. In order to facilitate the use of coding for publicly traded companies, the standards published by the SEC are included as references. The system places the relevant SEC content in the same headings and subheadings as all other contents. When SEC content is placed in the relevant sections, special SEC section codes are used to parse the content. SEC section codes are preceded by the letter S. The Coding Search System displays SEC content in separate sections that follow non-SEC content.

3.8 Chinese International Reporting System (PRC GAAP)

The Chinese unilateral input-output recording method was used in state accounting during Zhou's time (1066-771 BC); among other methods, this method remained in force until the middle of the nineteenth century. The method has three main characteristics: the use of the Chinese characters 'Ru', which means input as 'register' and 'Chu', which means output, the classification of accounts in the daily ledger (Cao Liu) and the large ledger (Zong Qing), checking of accounts in three columns (current received-payments = balance) (Gray, et. al., 2001). Then these three column methods were developed as four columns; The implementation of the four-column Tang Tang dynasty, (M.S. 618-M.S. 907) coincides with the period. The basis of the four columns is based on: (Balance Sheet Period) + Current Receivables-Payments = Balance. During the Ming dynasty (M.S. 1368-M.S. 1644), unilateral bookkeeping was inadequate as a result of increased commercial activity; because it is difficult to monitor numbers and processes in this complex structure (Gao ve Diğerleri, 2006). The three-stage bookkeeping method was invented in the middle of the fifteenth

century from the need. This method led to the development of a four-step method in the late fifteenth century; this is the first double-sided bookkeeping system in China; The double-sided system was not widely used until the nineteenth century. Before the nineteenth century, the Chinese accounting system was mainly based on account books such as caoliu-daily notebook, xiliu-jurnal, zongqing

J + X-K = S J = Jinguang (Response from the previous column operation or period)

X = Xinshou (New receipt record of current column operation or period)

K = Kaichu (expenditure record of current column operation or period)

S = Shizai (closing the account at the end of the current period and maintaining balance)

These four columns and four basic variables are like four columns of a building. The main function of accounting is seen as profit measurement; the main thing is the protection of the asset and it is important that the balance in the calculation is in the direction of the assets. This method has been on the agenda during the Song (M.S. 960-M.S. 1279), Ming and Qing periods and has become the standard of reporting used in government accounting as well as in private sector accounting.

The second important accounting innovation in China is the three-stage bookkeeping system that was introduced in the mid-fifteenth century. What is different about this practice is that it is based on three basic diary records (Auyeung, 2002): huoqing bu-cash sales and cash purchases; yinqing bunach book; wunlui this-personal account and transfer book. The most original feature of the system is the practical function of wunlui, which uses a double-sided recording system that includes the effects of demand and transport. Even though the cash transactions are unilaterally shown in huoqing bu and yinqing buds, it is different from the fact that the third leg, which is the reason why this system is called as three tiers, connects the cash transactions on demand and transfers according to the double registration system. It is used to observe double-sided borrowing changes and unilateral cash changes. The “dragongate bookkeeping-dragon gate bookkeeping system developed in connection with the three-step bookkeeping system was introduced during the Ming and Qing Dynasties. The main feature is based on the following equality of equilibrium (Auyeung, 2002): Jin (Revenues) - Jiao (Expenses-Yin) = Cun (Assets-Yang) - Gai (Equity and Liabilities) All records; jin, jiao, cun and gai are classified according to the main headings, all transactions are recorded in the big book on the basis of double-sided and Jin-Jiao (Revenue-Expenditure) and Cun-Gai (Asset-Equity-Liability) reports from the big

book. has been revealed. Profit and loss are calculated by the report maker by comparing total jin and total jiao in an accounting period; Similar comparisons are also made for total cun and total gai. Profit indicators are generated depending on the twinning process on both sides of equality; this process is called he longmen to close accounts. The process is important; because while checking the completeness and accuracy of the records simultaneously, the profit and loss situation as a special value is put forward. It is a four-stage ledger recording system used in the eighteenth century as an important milestone in the development of Chinese accounting. This method is also known as the tiandi panzhang, ie, the earth and sky method. This system is better than others. It has a wider account classification and the records associated with general accounts are better integrated; the reason for this is to establish a system that can cope with larger volumes and more complex commercial transactions (Zhao 1987, pp. 165-175). Contrary to the mixed structure of the three-stage system, namely the gradual use of double and unilateralism; The four-stage system performs all non-cash registration transactions and holds them for daily or large ledger. Finally, caixiang (profit and loss statement) and cungai (balance sheet) reports are produced.

The four-column equilibrium method was applied in commercial companies during the Qing dynasty, regardless of company scale. However, in the periods when it was used in medium and small-scale commercial works, the three-stage bookkeeping system; The dragon gate book system and the four-stage book system are only used in a large number of companies. Chinese accounting showed its presence at a time when there were many agro-elements and the growth of trade and handicrafts. The bookkeeping system, on the other hand, played an important role in determining commercial profit as an effective memory aid. Since the calculation of profit and loss is on a cash basis, prepayments and the amount of growth are of little importance in the context of accountability. There is no clear distinction between capital and investment expenditures. There is no particular interest in measuring profit. At that time, the basic forms of commercial organizations that are owned by the family and based on partnerships are seen. There are no partnerships yet. It can be said that economic growth in China during the nineteenth century only provided a quantitative expansion rather than qualitative progress requiring capital intensive investments. Moreover, an accounting application that would give rise to the idea of calculating capital expenditures and attrition share has not been seen, no such attraction has occurred. This period bears traces of an internal Chinese accounting and bookkeeping

methods; meets the complex structure of pre-industrial commercial life; but there is a need for another shell replacement process.

3.8.1 Cultures affecting Chinese accounting

When the content and scale of economic activity changes, the accounting record system in China changes. Chinese thinking, for example, rests on the contrast of Yin-Yang in one piece; The balance matching in dragon-gate notebook recording technique is a reflection of this understanding to the application. Although the Chinese have used unilateral and bilateral registration systems, the Chinese accounts do not seem to be important for their thinking. According to Lin's impressions from researchers, when Chinese accounting history was scanned, it was important to note that there was no separation of accounts into assets, liabilities, equity or earnings; rather, it is observed that the balance of cash flows from inside to outside and from inside to outside is observed in the records. The effect of Feng Shui is thought to be identical to the assessment and interpretation of accounting information in accordance with Yin & Yang principles (Gao ve Diğerleri, 2006).

3.8.2 Development of Chinese accounting and accounting organization

Studies on international accounting standards are an important problem in Asian countries which became more important for international trade and investments with globalization (Charias & Radianto 2001, p.2). Especially, the Republic of China, whose economy is growing day by day and which is considered as one of the most important economies of the world, increases the attractiveness of the region. After the establishment of Shanghai and Shenzhen Stock Exchange (SSE and SZSE) in China in the early 90s, the accounting system changed fundamentally.

3.8.3 Accounting system for business enterprises

In response to the development of the stock exchanges, the Chinese government published the Accounting Regulation for Experimental Listed Companies in 1992. After this arrangement, China separated from the traditional Soviet accounting model and incorporated many accounting practices reflecting IAS from the west into its own accounting system (Chen et al. 2002, p. 184). In addition, the issuance of B-type equity securities is required to redefine earnings in accordance with IAS. Despite these

regulations, significant differences between these two systems could not be resolved and China GAAP and IAS published the new Regulation for Experimental Listed Companies in 1998 to eliminate discrepancies between IAS and IAS. 16 new Chinese Accounting Standards have been issued by the Ministry of Finance using the IFRS model. These standards apply to companies listed on the stock exchange as of 1 January 2007. The Chinese Accounting Standards aim to provide objective information in the decision-making process for investors, creditors and other users by accurately and reliably reflecting the financial status, operating results and cash flows of enterprises (Brown, 2004).

3.8.4 International standards compliance process

International harmonization is defined as “a process of harmonizing and reconciling various systems in a synergistic way (Samuels and Piper, 1985: 56-57). International accounting harmonization is a concept that arises from the need to reduce the differences between financial reporting practices between countries, to increase the comparability status in financial reporting and to develop international accounting standards that are accepted in all countries (Hoyle et al., 2004: 537). Harmonization helps investors make the right decision. Advocates of harmonization argue that comparability in financial reporting is an advantage for investors because it facilitates the determination of potential value of investments and reduces risk in international diversification. In addition, as a result of harmonization, companies will be able to enter all capital markets in the world with financial reporting standards. Internationally accepted accounting standards will reduce costs in preparing consolidated financial reports which will be valid all over the world and it will be easier to audit these reports (Fritz & Lammle 2003, p.35). On the other hand, there are some arguments against the harmonization process to IFRS. The most important of these views is the magnitude of the differences in accounting practice applicable across countries. National accounting standards and practitioners face difficulties in applying the IFRS, practitioners' inability to apply those standards, excessive costs of implementation, political interests and legal regulations, but also reflections against the implementation of standards in the national accounting system. Due to the fact that the need for financial reporting standards is not always accepted by national accounting standards practitioners, obstacles are encountered in accounting standards which are tried to be

made as a single language in the world (Nobes & Parker 2006, p.77). As a matter of fact, Goeltz said, Full harmonization of international accounting standards is probably neither applicable nor necessary. It is not entirely clear whether significant benefits have been achieved. The market for well-developed global capital already exists and has developed without uniform accounting standards Go (Goeltz 1991, pp. 85-86). Nationalism emerged in the form of resistance to foreign influences, traditions that cannot be changed, different environmental effects are the problems in the harmonization. Furthermore, sometimes differences between countries may be necessary and appropriate. For example; It may be necessary to turn to different accounting systems at different stages of development or in countries based on different sources of finance (Hoyle et al. 2004, p. 538) (Joumal & Vulin 2004, p. 18). In addition to this, the costs of system change (time and economic losses) incurred by enterprises throughout the country due to harmonization lead to an increase in opinions opposed to harmonization. Likewise, as the result of standardization, businesses can easily be analyzed, so investors can turn to new businesses. This may lead to financial losses or stalemate for the small enterprises in the market in question. Despite opinions opposing harmonization, there have been years of work to reduce differences in accounting practices. Because cross-border investments, borrowings and globalization of trade have increased the need for harmonization. Some of the benefits of harmonization are listed below (Mogul 2003, pp. 681-682);

- Harmonization ensures reliable and high-quality reporting,
- It can be proved that it has significant contributions to the economic and financial development of the country,
- Provides the opportunity to systematically evaluate and examine the performance of multinational companies with partnerships and branches in various countries,
- Allows companies to compare their local and international counterparts more easily and meaningfully,
- Increases the international credibility of companies,
- It can lead to lower capital costs and increase company performance by leading the way into international capital markets.

International accounting standards provide multiple alternatives for reflecting and evaluating financial events in the accounting information system. The reason for this is to enable businesses to present their financial reports in the most accurate way and choose the best policies that are appropriate for them.

4.FINANCIAL INSTRUMENTS ANALYSIS

Different legislation and accounting standards may change between countries and these changes may influence financial reporting. With the globalization of the economic environment and the development and diversification of the economy, accounting standard setters in various countries try to change accounting standards with various approaches. The main factor in the need for international accounting standards, along with the information can be shared and compared internationally (Kocamaz, 2012, p.106), is the international dimension of investment and trade, and consequently the need for a common accounting language and practice. The request of the foreign investors to invest in the countries where they will have the least problems with tax and accounting issues while evaluating the capital, has been one of the factors that led to the need for comparable, transparent international accounting standards with a high level of intelligibility and applicability (Kocamaz, 2012, p.106).

Traditionally, an income statement is issued to see the financial situation and to present the balance sheet and operating results. In addition, large-scale enterprises issue reports named supplementary statements. These supplementary statements are cost sheet of sales, funds flow statement, cash flow statement, statement of changes in equity and statement of profit appropriation. Based on the financial transactions of enterprises, the preparation of these reports is called "financial reporting" (Kalmış, 2006, pp.140-141). In conclusion, financial reporting is the presentation of results that monetize the activities of companies. Presentation of the tables is very important and can explain the important aspects of the performance of companies and facilitates sector-based comparison with key competitors.

A company has the flexibility to tailor its chart of accounts to best suit its needs, including adding accounts as needed (Accounting coach 2019). In simple terms, the chart of accounts is a financial organizational tool that is a complete list of every account being run by a business. An account is a record for each type of asset, liability, equity, revenue, and expense. The COA sorts different specific accounts, consolidating

accounts of the same type for easier tracking and logging. A company's statement is an index of financial accounts that an entity uses in its accounting system and sends it to the general ledger book - a record of all financial transactions within the company during a given accounting cycle.

There are some general frameworks that have an impact on the accounting system. The Uniform Chart of Accounts, which provides an order and convenience in the recording of accounting transactions, is the list of accounts prepared according to a certain system. It is obligatory to apply Uniform Chart of Accounts (CAO) for enterprises that keep books on balance sheet basis. The codes and accounts in this account plan cannot be changed. It is very important that that accounting records are kept accurate and complete for all of size business. The Uniform Chart of Accounts is very valuable in terms of providing ease of transaction within a certain system. In another explanation that Uniform Chart of Accounts forms the basis of classification in accounting.

CHART OF ACCOUNTS	
ASSETS	Cash Accounts Receivable Inventory Investments Property & Equipment Accumulated Depreciation
LIABILITIES	Accounts Payable Credit Card Payable Notes Payable
EQUITY	Owners Equity (or Retained Earnings for a corporation)
REVENUE	Sales Returns Miscellaneous Income Interest Income
EXPENSES	Wages Payroll Taxes Employee Benefits Rent Utilities Advertising Insurance Professional Fees

Figure 4.1: Chart of Accounts

Source: Choi, F. and Meek, G., (2005) *International Accounting*, Englewood Cliffs, NJ: Prentice Hall

Definitions about financial statements given as below:

Assets is an accounts that are owned by the entity and included in the balance sheet and the values that can be explain with money. Some examples are cash, equipment, and vehicles.

Liability is a resource that is required to produce goods and services to meet business needs, and where the assets are provided. Some examples are accounts payable, notes payable, and bonds payable.

Owners' equity represents the claims by the owner of a business to the assets of the business (Needles, Powers & Cosson 2013). It is the account group where the capital and similar resources put into operation by the owners and partners. There are three basic entities: sole proprietorships, corporations, and flow-through entities such as partnerships.

The purpose of financial reporting is to provide decision makers with useful information (Flood, 2019). In order to help the decision-makers understand financial statements easily and quickly they should be comprehensive, appropriate to the needs, reliable, comparable and be timely prepared and presented.

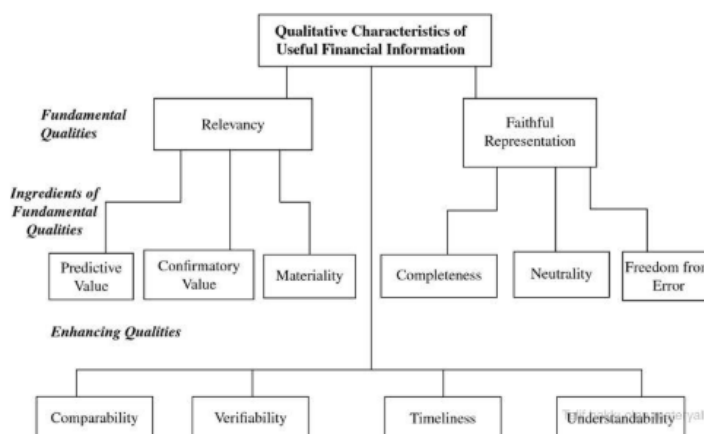


Figure 4.2: Qualitative Characteristics of Useful Financial Information

Source: Spurga, R. C. (2004). *Balance Sheet Basics -Financial Management for Non-Financial Managers*, (1st ed.). New York. USA: Penguin Group

Purposes of financial statements are as follows:

- To provide useful information in the decision-making process of investors, creditors and other related parties.
- To provide useful information to evaluate future cash flows.
- To provide information on assets, liabilities, change in such items and operating results.

Financial statements categorized into two groups:

4.1 Balance Sheet

A balance sheet is a financial statement showing the assets of the entity at a certain date and the sources of such assets. The balance sheet is one of the most important statements of the accounting system. The balance sheet is extremely beneficial for businesses. There are four sections in the form of the balance sheet.: Balance sheet title, active side, passive side and balance sheet footnotes. Anything the business owns that has money value is an asset. The assets of a small business commonly include cash, notes receivable, accounts receivable, inventories, land, buildings machinery, equipment and other investments (Spurga, 2004).

The balance sheet is based on the fundamental equation:

$$\mathbf{Assets = Liabilities + Equity}$$

Summary of this equation states the following:

$$\mathbf{Net Assets=Owner's Equity}$$

With another definition of balance sheet is a financial statement that shows the receivables and receivables of a company at the end of a certain period in a certain date. The balance sheet is a kind of reports that showing responsibilities and equity of the entity. The balance sheet also reveals the capital structure of the company.

The balance sheet has two main sections. The first section (the left side if the two sections are shown side by side) shows the assets. The second (or right hand) section shows the liabilities (or debts) and the owner's equity, which together represent the claims against the assets. The total assets always equal the combined total of the liabilities and the owner's equity (or capital) that is why this financial statement is called a balance sheet (Spurga, 2004).

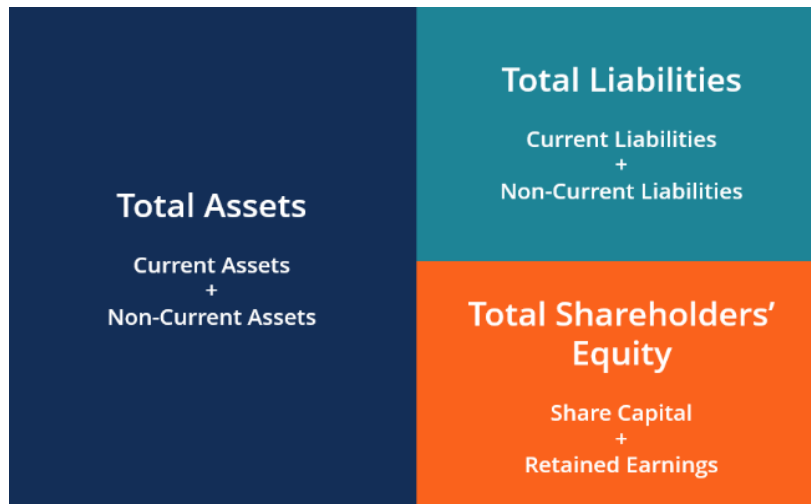


Figure 4.3: Simple Balance Sheet

Source: Wallstreetmojo website, 2019

All assets, liabilities and shareholders' equity are shown at their gross values. This principle does not prohibit the preparation of the balance sheet according to the net value basis. The discount items must be shown clearly below the individual accounts.

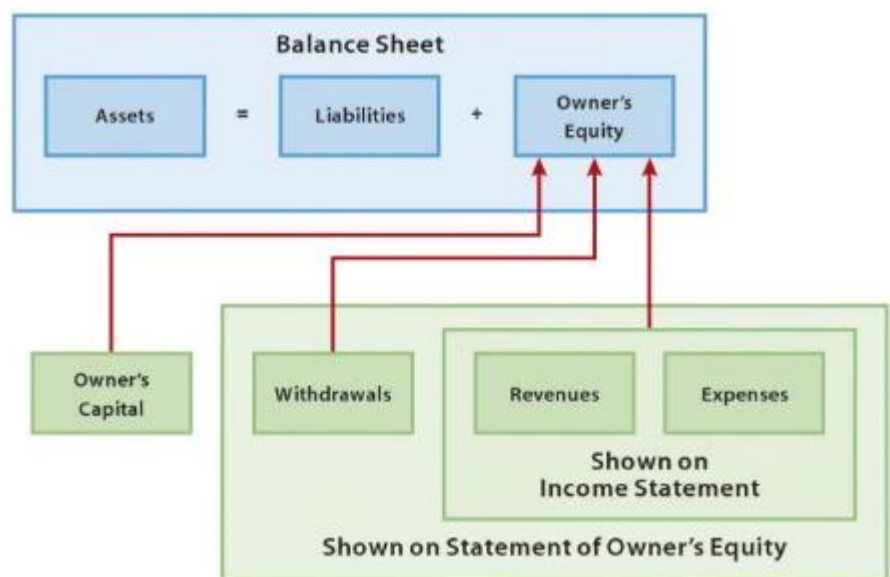


Figure 4.4: Relationships of Owner's Equity Accounts

Source: Needles, B.E., Powers, M. & Crosson, S.V. (2013). *Principles of Accounting* (12th ed.). USA: South Western (Needles, Powers & Cosson 2013)

4.2 Asset Base Evaluation

Assets can be defined as the valuables that the company owns to benefit from or are used to generate income (Deloitte Touche Tohmatsu, 2005). They are the resources of the company that have future economic value. These are categorized into tangible and intangible assets. The tangible assets are further bifurcated into current, long term and other assets. The non-tangible assets are trademark, copyrights, goodwill to mention a few. Assets are categorized into two groups; current assets and non-current assets. Current assets consist of assets which could be converted into cash, or used in one year, or in the normal operating period of the company. Current assets include the cash, accounts receivable, prepaid expenses and all that can be converted into cash within a year. Non-current assets consist of assets which would be disposed of or depreciated in one year under normal conditions. Long term assets are also called fixed assets. They are distinguished from the current assets due to their longevity in generating revenues. All fixed assets except for land are shown on the balance-sheet at original cost less depreciation.

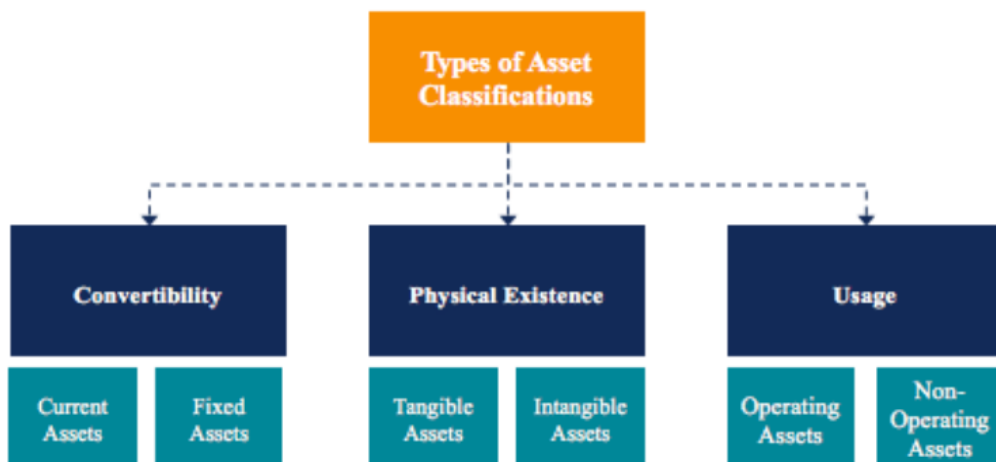


Figure 4.5: Types of Asset Classification

Source: Corporate Finance Institute (CFI) website, 2015

4.2.1 Current assets

Current assets are expected to be consumed, sold, or converted into cash either in one year or in the operating cycle, whichever is longer. An operating cycle is an average

time it takes to convert an investment in inventory back into cash. Current assets are presented in order of liquidity.

Assets are listed in a certain way, starting with what we call current assets, which are highly liquid and can easily be turned into cash (Press, 2015).

4.2.1.1 Cash and cash equivalent

Cash equivalents, in general, are highly liquid investments having the maturity of three months or less. To be classified as a cash equivalent an item must be unrestricted so that it is available for immediate use. Cash and cash equivalents are the most liquid assets, it's the most liquid element for the users of financial statements. Moreover, the fair presentation of cash and cash equivalents is an important structure for the successful execution of cash and cash management.

Table 4.1: Cash and cash equivalent difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.2 Cheques received

The checks received account allows monitoring of checks that have been given to the entity by legal persons and have not been given to the bank for collection yet. If a cheque is issued in foreign currency are also monitored in this account with original currency (Sevilengül, 2011).

Table 4.2: Cheques received difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.3 Cash in banks

Cash in banks the funds that are invested or withdrawn from domestic and foreign banks are monitored. If a company wants to keep their all currency money in safe, they can deposit it to into bank account. On the other hand, they may gain interest depositing the money time in deposit account if the money is more than company need. In this account, the funds that are invested or withdrawn from domestic and foreign banks are followed (Akdoğan & Sevilengül 2000).

Table 4.3: Cash in banks difference

US GAAP	PRC GAAP
No difference.	No difference.

Restricted cash

Restricted cash means cash that are restricted as withdrawal or usage. E.g. deposit as security pledged to bank.

A company's balance sheet must include all assets and liabilities, including cash. Restricted cash is reported separately from cash and cash equivalents on a company's balance sheet and the reason the cash is restricted is typically revealed in the financial statement's accompanying notes. Restricted cash may be classified as a current or non-current asset depending on how long it's expected to remain restricted. If the cash in question is expected to be used within one year of the balance sheet date, the cash should be classified as a current asset. However, if it is anticipated that the cash will remain unavailable for use for more than a year, then it should be classified as a non-current asset.

Table 4.4: Restricted cash difference

US GAAP	PRC GAAP
Restricted cash and bank deposits are separately disclosed in a line on balance sheets as “Restricted Cash” and “Short Term Investment”.	Restricted cash and bank deposits are included in cash and cash equivalents items. The above details are separately disclosed in the notes of the financial statements.

4.2.1.4 Cheques given and payment orders (-)

It is the account that enterprises monitor the payments to be made to third parties by check or payment order from banks. The checks account given is a passive character account, which means that although it is an asset account, its operation is in the form of resource accounts. In other words,

increases are recorded as receivables and decreases are recorded as liabilities. The (-) sign next to the account means this (Sevilengül, 2011).

Table 4.5: Cheques given and payment orders (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.5 Other liquid assets

Includes credit card withdrawals, stamps, overdue coupons, bank and postal remittances to be considered as cash equivalents (Akdoğan & Sevilengül 2000).

Table 4.6: Other liquid assets difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.6 Common stocks

This category includes the short-term investments that companies make when they have cash that will not be needed within the next few weeks or months. As a result of intelligent cash planning, the company can earn extra profit in the form of interest income from these securities. Some companies earn sizable returns from these investments, particularly when interest rates are high. Common stock represents residual ownership in the corporation. Residual ownership consists of any remaining net assets after preferred stockholders' claims are paid (Loughran, 2012).

Table 4.7: Common stocks difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.7 Private sector bonds, notes and shares

It is an account in which the bonds, bills and bills received from the private sectors are recorded and monitored (Sevilengül, 2011).

Table 4.8: Private sector bonds, notes and shares difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.8 Public sector bonds, notes and shares

It is an account in which the bonds, bills and bills taken from the public sector. These bonds follow and monitors in this account (Akdoğan & Sevilengül 2000).

Table 4.9: Public sector bonds, notes and shares difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.9 Other marketable securities

The shares of the company are purchased of other securities that are used to invest in the short term, except for bonds, bills and bonds issued by the private sector and the public sector (Akdoğan & Sevilengül 2000).

These securities are as follows; repo, financing bills, securities mutual fund, housing and deposit certificates, asset-backed securities, mutual funds, bank bonds.

Table 4.10: Other marketable securities difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.10 Provision for decrease in value of marketable securities (-)

Securities is the account where the provisions to be allocated are monitored when there is a significant decrease in the value of the securities held by the companies from the stock market and market values. This account is a passive character account. In other words, increases are recorded as receivables and decreases are recorded as debts. Provision for securities with impaired value is recorded in the receivable of the account, whereas it is recorded in the liability of provision expense account. If the decrease in value is eliminated or the securities are removed from the business records, this account is recorded as debts and closed. If the decrease in value disappears or decreases, the canceled provisions are recorded in the receivable of the non-subject provisions account (Sevilengül, 2011).

Table 4.11: Provision for decrease in value of marketable securities (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.11 Trade receivables-short term:

Trade receivables or account receivable (AR) is the accounting record that is included in the balance sheet of an enterprise due to the sale of goods and services by credit to customers and the maturity is up to 1 year. Trade receivables and account receivables are used interchangeably in the sector

Account receivable are short-term financial assets that arise from sales on credit and often called trade credit (Needles, Powers & Crosson 2013). It is the account used to follow the receivables of the company from the sales of goods and services that constitute the subject of activity of the enterprise. Non-performing receivables arising from financial leasing are also follows in this account.

Account receivables is the accounting record that is included in the balance sheet of an enterprise due to the sale of goods and services by credit to customers. This is classified as a current asset on the entity's balance sheet because the entity has a legal claim on the customer and while the entity must pay the entity (Wallstreetmojo 2019).

Table 4.12: Trade receivables-short term difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.12 Notes receivable

Notes receivables is a short-term debt will be paid by debtor to the other company which gave borrow money. The maturities of the bonds are less than one year it cakes short-term notes receivable. Notes receivable are valued on the last day of the accounting period (Akdoğan & Sevilengül 2000).

- Valuation of Notes Receivables in Turkish Lira: All receivables with/without bonds are valued at their registered value in accordance with Article 281 of the Tax Procedure Law. This value is the value in the records per year. Notes receivable are recorded at their nominal value. Therefore, the value of the bond is the same as the nominal value.
- Valuation of Notes Receivables in Foreign Currency: Notes receivable issued in foreign currencies are subject

to the same provisions as notes issued in TL. However, the provision of Article 280 of the Tax Procedure Law should also be taken into consideration.

Table 4.13: Notes receivable difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.13 Rediscount on notes receivables (-)

The difference between the nominal value and the cash value of notes receivable account at the end of the period. It is a passive character account (Akdoğan & Sevilengül 2000).

Table 4.14: Rediscount on notes receivables (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.14 Unearned lease interest income (-)

This is an account that shows the unearned financial lease interest income that shows the difference between the rental date value and present value of the lease payments. The related information of calculation of these revenues is included in the balance sheet notes (Akdoğan & Sevilengül 2000).

Table 4.15: Unearned lease interest income (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.15 Deposits and guarantees given

It is the account in which the deposit and collateral cash values given by the entity as guarantee for a specific work to third parties. Deposits and guarantees which are predicted to be pay back to the company within one year, are recorded in the debts of this account (Akdoğan & Sevilengül 2000).

Table 4.16: Deposits and guarantees given difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.16 Other trade receivables

It is the account including other non-performing trade receivables as a result of trade activities and which are not covered by other trade receivables accounts (Akdoğan & Sevilengül 2000).

Table 4.18: Other trade receivables difference

US GAAP	PRC GAAP
No difference.	No difference.

Interest receivables:

Interest receivable is a balance sheet account that reflects the interest income earned by an entity but which a customer or a debtor should not pay yet. This type of account is widely used by businesses that show interest in loans and credit limits to customers. Interest receivable and interest revenue definitions highly conflicted. The interest income account reflected in the income statement of the company includes all interest income earned, whether paid or not paid or not included in the receivable account.

Table 4.19: Interest receivables difference

US GAAP	PRC GAAP
Interest receivables are included in “Short Term Investments (Marketing Securities)” unless the amount is material. Interest income shall be properly accrued for those bank deposits of the US GAAP concept.	Interest receivables shall be separately disclosed in line on balance sheet as “Interest Receivables” under other trade receivables.

4.2.1.17 Doubtful trade receivables

The payment period has expired, therefore, it is the account in which the receivables with notes and bills, which have been extended or protested several times, are requested more than once in writing or transferred to litigation or enforcement stage calls as doubtful trade receivables (Akdoğan & Sevilengül 2000).

Table 4.20: Doubtful trade receivables difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.18 Provisions for doubtful trade receivables (-)

Since the doubtful receivable allowance is a credit account control account, it must always have a credit balance and the credit accounts are listed just below the line item. The two-line items can be combined to reach the net receivables figure for reporting purposes (Tenker, 1999). The balance sheet is used together with the accounts receivable to report the net realizable value of the company's receivables. In these counter-accounts, an attempt to increase the credit balance is recognized as a liability to the expense of bad debts of the income statement account.

Table 4.21: Provisions for doubtful trade receivables (-) difference

US GAAP	PRC GAAP
If a specific review is performed a customer and this customer has no credit risk, US GAAP allows to make nil provision to this customer.	Even after specific review and after the review if a customer has no credit risk, a general provision is made according to AR aging position of the customer unless customers are subject to a totally different credit risks with other customers.

4.2.1.19 Due from shareholders

Other receivables include income tax refunds, interest receivable, and those that do not typically arise from trade or business transactions and include amounts loaned to employees or corporate officers. Accepting receivables in exchange for the sale of goods or services or the lending of monies presents a company with a credit risk that of nonpayment (Akdoğan & Sevilengül 2000).

Due from shareholders is the account where the receivables from shareholders or business owners (arising from lending, lending and similar reasons) are monitored due to the transactions other than the main activity of the enterprise.

Table 4.22: Due from shareholders difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.20 Due from participations

It is the account in which the receivables of the company from its subsidiaries (arising from lending, lending and similar reasons) are monitored due to the transactions other than the main activity of the enterprise (Sevilengül, 2011).

Table 4.23: Due from participations difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.21 Due from subsidiaries

When the rate is 50% or more in an entity it is called ad subsidiary (Yılmaz 2017). It is the account in which the receivables of the company (due to lending, lending and similar reasons) due to the transactions other than the main activity of the enterprise are followed in this account.

Table 4.24: Due from subsidiaries difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.22 Due from personnel

It is the account in which the debts of the operating personnel are monitored due to the transactions other than the main activity of the enterprise (Sevilengül, 2011).

Table 4.25: Due from personnel difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.23 Other receivables

It is the account where the receivables that cannot be included in any of the other receivables accounts that are not based on a commercial reason (Sevilengül, 2011).

Table 4.26: Other receivables difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.24 Discounts on notes receivables (-)

When the balance sheet is issued, the rediscount amounts reserved for the note's receivable are monitored in this account in order to ensure the valuation of the note's receivable specified in this group with the saving value (Sevilengül, 2011).

Table 4.27: Discounts on notes receivables (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.25 Other doubtful receivables

It is an account in which non-commercial receivables with notes and bonds are followed, which have been extended or protested a few times due to the expiration of the payment period (Akdoğan & Sevilengül 2000).

Table 4.28: Other doubtful receivables difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.26 Provision for other doubtful receivables (-)

It covers provisions provided for the elimination of such risks in case the possibility of non-collection of other receivables with doubtful and non-paid notes is strengthened. The provision for collateralized receivables is used for the portion of exceeding amount and it is a kind of passive character account (Sevilengül, 2011).

Table 4.29: Provision for other doubtful receivables (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.27 Inventory

Inventory is a part of the current assets that acquired by the entity for the purpose of selling, using in production or consuming, such as initial materials and materials, semi-finished goods, commercial goods, by-products, waste and scrap, which are considered to be used in less than a year or may be converted into cash within a year (Sevilengül, 2011). Accounting standards use a common accounting language in the international arena, to increase the transparency of records, institutionalism has emerged in the accounting world as a result of crises occurring in order to facilitate and ensure the availability on. After the large accounting crisis in many European countries, especially America has made various arrangements. The accounting standards are made in order to create one of the editing worlds in a common accounting language. Stocks in firms should be monitored accurately as they are an important element in both the balance sheet and income statement in the account group trading and production enterprises (Khan & Mayes, 2009).

Stocks are physical products that a company will sell to generate income and profits. Therefore, the selection of stock costs is very important. The stock cost method to be adopted is an issue that the enterprise should emphasize. Since stocks are an important part of the balance sheet, they will have a result that will affect the financial performance of the company according to the cost method to be determined. In an inflationary environment, commercial enterprises will need to evaluate their existing inventories according to one of the inventory valuation methods. Because of the prices of commercial goods purchased in an inflationary environment due to the purchase of different prices at different dates, it is necessary to determine the entry prices of commercial goods to stocks when calculating the sales or inventory costs of these goods. In other words, when calculating the costs of commercial goods sold or remaining in stock; the question arises “whether the price of the first purchase” or “the price of the last purchase” or the average price will be taken into consideration. That is why the cost of commercial goods sold or in stock; is calculated on the basis of one of the stock valuation methods in accordance with the structure of the enterprises. Not using the stock valuation methods depends on the fact that prices do not change at the general level. Because for the commercial goods entering the storehouse or warehouse of the enterprise on different dates, whether the purchase price of the first or last purchased merchandise will be the same, the sales or stock costs will not change.

Inventories have an important place in the cash flow rates and operating capital turnover rates of firms. High volume of inventory means is a risk and inventory may distort the fair view on the working capital.

Three key methods to report inventories:

- **First-in, First-out (FIFO):** In this valuation method, the goods used in the enterprise, given to production or sold are considered to be among the first entered to the inventories of the enterprise. The exits start from the first goods entering the business and continue to its life.
- **Weighted Average Cost.:** In this method, the average cost is calculated for a certain period, not after each new stock movement. The average cost value is the average unit cost of a good that enters the entity at different prices on various dates.
- **Last-in, First out:** It is based on the assumption that the goods to be supplied or sold to production must be from the goods entering the stocks first. The order of using the goods in stock starts from the first purchased goods and continues in order. In other words, the goods entering the inventories again exit the inventory respectively.

Table 4.30: Inventory difference

US GAAP	PRC GAAP
<p>A variety of inventory costing methodologies such as FIFO, LIFO and weighted-average cost are permitted. Reversal is prohibited.</p>	<p>Use of LIFO to calculate inventory delivery cost is prohibited. Reversal of inventory write downs required if certain criteria are met.</p>

If we evaluate stock valuation methods, while US GAAP does not allow the use of LIFO methodology in cost calculation, PRC GAAP allows the use of LIFO cost methodology. The result here is, a company adopting PRC GAAP and a company using the LIFO method under US GAAP will have to switch to a methodology that makes it possible to use the allowable cost model (Deloitte Touche Tomatsu, 2007).

This also gives the flexibility to choose earnings per share. The enterprise should therefore select and use the stock recording method well and should not use any discretion in selecting any applicable method. The flexibility in choosing the stock cost method allows the enterprise to use its own decisions to choose the method that best applies its inventories.

4.2.1.28 Raw materials and supplies

The common characteristics of business materials that they will be consumed in the business during the business activity process. However, business activities depending on whether they are industrial, service or commercial enterprises. For this reason, some of the operating materials are purchased in production enterprises for different purposes than trade enterprises. This difference is due to the expense of these operating materials (Akdoğan & Sevilengül 2000).

Table 4.31: Raw materials and supplies difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.29 Semi-finished goods in production

It is the account where the products in the production stage which have not yet become fully manufactured but have received a certain share from direct raw materials and materials, direct labor and general production expenses are monitored. This account is using by cost accounting (Sevilengül, 2011).

Table 4.32: Semi-finished goods in production difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.30 Finished goods

It is the account that the products obtained at the end of the works of production enterprises and which are ready for sale (Akdoğan & Sevilengül 2000).

Table 4.33: Finished goods difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.31 Trade goods

Stocks of merchandise consist of merchandise and other inventory items held for trading purposes in commercial enterprises (Sevilengül, 2011).

Table 4.34: Trade goods difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.32 Other inventories

Items such as products, wastes and scrap which are not included in any of the inventory items is following in this account group (Akdoğan & Sevilengül 2000).

Table 4.35: Other inventories difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.33 Provision for inventories (-)

It is the account that reserves allocated to cover losses due to decreases in physical and economic values of stocks and decreases in market prices of stocks. It is a kind of passive character account. Due to natural disasters such as fire, earthquake, floods and deterioration, decay, breakage, cracking, rusting, technological developments and changes in fashion due to significant decreases in the physical and economic values of stocks or other reasons due to the fall in the market prices of stocks (Akdoğan & Sevilengül 2000).

Table 4.36: Provision for inventories (-) difference

US GAAP	PRC GAAP
Reversals of write-downs is prohibited.	Reversal of inventory write downs required if certain criteria are met.

4.2.1.34 Advances given to suppliers

This account is used to follow the advance payments made for stocks ordered from domestic or international suppliers (Akdoğan & Sevilengül 2000).

Table 4.37: Advances given to supplier's difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.35 Contract progress cost

Businesses are obliged to allocate their lifespan, which is accepted as unlimited according to accounting concepts, to certain periods. This distinction is achieved by adopting a period of one calendar year. Accordingly, operating results of the period are determined independently of the other periods. Revenue is recognized on an accrual basis, revenue, income and profits are compared to the costs, expenses and losses of the same period. However, in some business lines, the comparison of costs with the revenues of the period may give inaccurate results in practice. Particularly in construction works, it is not correct to reflect the costs to the results of each period. If the construction work is widespread over the years, transferring the construction cost to the period profit or loss will likely result in loss. This is because the income from construction work is generally obtained after the completion of the structure. Until the construction is completed, the construction company will suffer, but it may become profitable with accrual of income on the delivery of work (Unutkan, 2017).

Table 4.38: Contract progress cost difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.36 Contract progress inflation

This account is used to follow the differences from the inflation adjustments related to the costs and progress payments related to the construction (Sevilengül, 2011).

Table 4.39: Contract progress inflation difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.37 Advances given to sub-contractors

It is the account that following advance payments given to the subcontractors (Sevilengül, 2011).

Table 4.40: Advances given to sub-contractor's difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.38 Prepaid expenses and income accruals for the following months

Expenses made in accordance with the concept of periodicity in accounting are recorded in their own periods (Akdoğan & Sevilengül 2000). For prepaid and future expenses, this account is used to follow expenses that should not be recorded in the accounts in the period being worked.

Table 4.41: Prepaid expenses and income accruals for the following months
difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.39 Income accruals

It is the account that is used to follow the income that has arisen as of the balance sheet date but has not become desirable (Sevilengül, 2011).

Table 4.42: Income accruals difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.40 Deferred VAT

Other current assets are a balance sheet line item representing all short-term assets considered to be too short to be recognized individually. Unlike typical current assets, such as cash and cash equivalents, accounts receivable, securities, inventory and prepaid expenses, they are specifically referred to as "other" as they are insignificant or very rare (Sevilengül, 2011).

It is the account where the receivables that cannot be included in any of the other receivables accounts that are not based on a commercial reason are tracked such as VAT return and the payment will be done to the entities for the aim of incentive. In here it is necessary to make definition about tax.

Value-added tax (VAT) is the type of tax paid by the purchased side to delivery side or production side.

Calculation of Value Added Tax (VAT):

VAT to be paid to Government = Output VAT – Input VAT

Output VAT, it is a tax charged on the sale of goods. It is charged on the selling price of the goods.

Input VAT, it is the tax paid on the purchase of goods. It is paid at the cost price of the goods.

It is the account where the value added tax that cannot be reduced in a period and transferred to the next period is followed

Deferred Tax, if Input VAT > Output VAT is difference between in these two accounts is called deferred VAT.

Value added tax receivables:

Table 4.43: Value added tax receivables difference

US GAAP	PRC GAAP
Valued added tax receivables are separately disclosed on the balance sheets as “Value Added Tax Receivables”.	Valued added tax receivables are included with the line called “Other Receivables” Details is explained on footnotes.

4.2.1.41 Deductible VAT

It is the account where the value added tax paid to the sellers during the all kind of purchase and it held until deducted from the calculated VAT (Sevilengül, 2011).

Table 4.44: Deductible VAT difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.42 Other VAT

The value added tax deferred until the date of discount is not payable but payable and can be used up to one year (Sevilengül, 2011).

Table 4.45: Deductible VAT difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.43 Prepaid tax and funds

It is the account that the prepaid income tax, corporate tax and other taxes and funds are registered and followed up in accordance with the legislation (Sevilengül, 2011).

Table 4.46: Prepaid tax and funds difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.44 Work advance

This account follows the advances given to the employee to make expenses and payments by company during business trip (Akdoğan & Sevilengül 2000).

Table 4.47: Work advance difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.45 Advance given to personnel

Advances paid to the operating personnel in order to make services on behalf of the enterprise, and the advance payments paid to the personnel and workers for their salaries, wages and travels (Akdoğan & Sevilengül 2000).

Table 4.48: Advance given to personnel difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.46 Stock count and delivery shortages

It is the account that will be recorded and monitored temporarily for the deficiencies of the cash, inventory and tangible assets determined as a result of the inventory count (Akdoğan & Sevilengül 2000).

Table 4.49: Stock count and delivery shortages difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.47 Other current assets

Assets other than did not mentioned above is include this group (Akdoğan & Sevilengül 2000).

Table 4.50: Other current assets difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.1.48 Provision for other current assets (-)

Provisions for impairment of assets accounted for in other current assets at year-end (Akdoğan & Sevilengül 2000).

Table 4.51: Provision for other current assets (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2 Non-current assets

4.2.2.1 Customers

It is the account used for following the receivables of the company from the sales of goods and services that maturity of the receivables in this account is more than 1 year. Non-performing receivables occurred from financial leasing are also followed in this account (Sevilengül, 2011).

Table 4.52: Customers difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.2 Notes receivable

This is the account that receivables with notes is followed. Maturities exceeding one-year receivables is followed under this account. Financial leasing receivables are including (Sevilengül, 2011).

Table 4.53: Notes receivable difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.3 Rediscount on notes receivables (-)

Rediscount is the process of reducing the receivables and debt securities to their values on the day of valuation. (Sipahi, 2017).

Table 4.54: Rediscount on notes receivables (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.4 Unearned lease interest income (-)

This is an account that shows the unearned finance lease interest income that shows the difference between the receivables arising from the leasing processes and the present value of the lease payments at the date of the leasing. The information related to the calculation of these revenues is explained in the footnotes (Cömert Doyrangöl, 2017).

Table 4.55: Unearned lease interest income (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.5 Deposits and guarantees given

It is the account where the deposit and guarantees given by the entity against third parties for a period of more than 1 year to be repaid in return for a work or contract (Sevilengül, 2011).

Table 4.56: Deposits and guarantees given difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.6 Provision for doubtful receivables

Provision for doubtful receivables at the end of the period. Maturity is more than one year (Sevilengül, 2011).

Table 4.57: Provision for doubtful receivables difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.7 Due from shareholders

Due to the transactions other than the main activity of the enterprise (arising from lending, lending and similar reasons), it is the account that following the receivables from shareholders or business owners for more than 1 year (Sevilengül, 2011).

Table 4.58: Due from shareholders difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.8 Due from affiliates

When the voting right and the right to participate in the management are between 10% and 50% in another business, it is called as affiliates (Yilmaz 2017). Due to the transactions other than the main activity of the enterprise (arising from lending, lending and similar reasons), it is the account that following the receivables from affiliates more than 1 year (Sevilengül, 2011).

Table 4.59: Due from affiliates difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.9 Due from subsidiaries

When the rate is 50% or more in an entity it is called ad subsidiary (Yilmaz 2017). Due to the transactions other than the main activity of the enterprise (arising from lending, lending and similar reasons), it is the account that following the receivables from subsidiaries more than 1 year.

Table 4.60: Due from subsidiaries difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.10 Receivables from personnel

It is the account in which the debts of the operating personnel are followed due to the transactions other than the main activity of the enterprise. Maturity is more than one year (Sevilengül, 2011).

Table 4.61: Receivables from personnel difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.11 Other receivables

It is the account where the receivables that cannot be included in any of the other receivables accounts that are not based on a commercial reason. Maturity is more than one year (Sevilengül, 2011).

Table 4.62: Other receivables difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.12 Rediscount on other notes receivable (-)

When the balance sheet is issued, the rediscount amounts reserved for long-term notes receivable are monitored in this account in order to ensure the valuation of the note's receivable specified in this group with the saving value (Sevilengül, 2011).

Table 4.63: Rediscount on other notes receivable (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.13 Provision for other doubtful receivables (-)

It covers provisions provided for the elimination of such risks in case the possibility of non-collection of other receivables with long-term notes and notes without doubt. The provision for collateralized receivables is used for the portion exceeding the collateral (Sevilengül, 2011).

Table 4.64: Provision for other doubtful receivables (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.14 Long term securities

The shares that are not kept in the associates account because they do not carry the minimum percentages sought in the capital shares account in affiliates but that are not held in the long term and that are excluded from the shares and held for long-term purposes or due to legal obligations or to be converted into money are followed in this account (Yılmaz 2017).

Table 4.65: Long term securities difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.15 Decrease in value of long-term marketable securities (-)

If long term securities have a significant or sustained decrease in the value of the stock market or market this account shows where the provisions that should be set aside in order to cover the losses (Yılmaz 2017).

Table 4.66: Decrease in value of long-term marketable securities (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.16 Participations

It is the account in which the shares acquired by the entity to participate directly or indirectly in the management of other companies and in the determination of partnership policies are followed in this account (Yılmaz 2017).

Table 4.67: Participations difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.17 Capital commitments for participations (-)

It is the account where the capital commitments related to the associates are monitored (Yılmaz 2017).

Table 4.68: Capital commitments for participations (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.18 Decrease in value of participations' shares (-)

It is an account that continuously or significantly remittance on value of subsidiary share in stock market (Yılmaz 2017).

Table 4.69: Decrease in value of participations' shares (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.19 Subsidiaries

When the rate is 50% or more in an entity it is called ad subsidiary (Yılmaz 2017). For determining the ownership of the subsidiary, the right to choose most of the management is important point for subsidiary.

Table 4.70: Subsidiaries difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.20 Capital commitments for subsidiaries (-)

It is the account where the capital commitments related to the subsidiaries are monitored (Yılmaz 2017).

Table 4.71: Capital commitments for subsidiaries (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.21 Decrease in value of subsidiaries shares (-)

It is an account in which continuous or significant decrease in the value of the shares of the subsidiary in the stock market or market is followed (Yılmaz 2017).

Table 4.72: Decrease in value of subsidiaries shares (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.22 Other financial assets

The rest assets are not including above items is followed another financial asset account (Yılmaz 2017).

Table 4.73: Other financial assets difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.23 Decrease in value of other financial assets (-)

It is an account in which continuous or significant decrease in the value of the other financial assets in the stock market or market is followed (Yılmaz 2017).

Table 4.74: Decrease in value of other financial assets (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.24 Tangible Fixed assets:

Fixed assets are those acquired for long-term use in the business. They include land, buildings, plant, machinery, equipment, furniture, fixtures, and so on. These assets are typically not for resale, and they are recorded on the balance sheet at their cost to the business, less depreciation. A fixed asset is treated as a long-term cost, with the cost allocated as depreciation over the working life of the asset. Thus, the value of a fixed asset shown on the balance sheet is not necessarily the same as the resale value of the asset (Spurga, 2004). Fixed assets are highly important for any company.

Key Characteristics of a Fixed Asset:

- a) They have a useful life of more than one year,
- b) They can be depreciated (Except land),
- c) They provide long-term financial benefit,
- d) They are illiquid

Basis	Tangible Asset	Intangible Asset
Meaning	Owned by an Organisation having monetary value and physical existence	Assets which are not existing visually but poses certain economic life and value
Valuation	Monetarily possible	Difficult to measure in financial terms
Collateral Acceptance	It can be accepted as a collateral	Cannot be accepted as collateral
Value Reduction	Depreciation	<u>Amortization</u>

Figure 4.6: Tangible Asset VS Intangible Asset

Source Spurga, R. C. (2004). *Balance Sheet Basics -Financial Management for Non-Financial Managers*, (1st ed.). New York. USA: Penguin Group

Table 4.75: Tangible Fixed assets difference

US GAAP	PRC GAAP
Defines computer software as fixed assets.	Defines computer software as “Intangible Assets”.
Properties that generated rental income is treated as fixed assets.	Properties that generated rental income is treated as “Investment Properties” which shall be stated with cost value.
Depreciation usually started to book at the acquisition month.	Does not allow to book depreciation at the acquisition month. Carried at cost less depreciation. Reduced to recoverable amount if an impairment occurred.

4.2.2.25 Asset impairment

As a result of the decrease in the benefit from the asset due to different reasons, the recoverable amount of the asset may fall below the book value. Impairment of assets, when the value of the asset in the market is lower than the value of the same asset existing in the company's balance sheet, is the decrease in the value of assets in the accounting records of the company. In other words, impairment of assets, is an accounting principle used to permanently reduce the value of a company's asset. A company's assets are tested for impairment annually, and if there is impairment,

impairment loss is recognized in the income statement and the balance sheet is adjusted accordingly. The cash flow statement is not affected by the impairment since there is no cash transaction realized during the impairment. Impairment of the asset; it may be caused by external factors such as economic decisions taken by the government, changes in competition conditions and technological developments, as well as internal factors such as loss of function and damage to assets (Bilen & Özkan 2016).

For the below items' impairment test is made whether its impaired or not.

-goodwill,

-intangible assets with indefinite useful lives,

-intangible assets not yet available for use (Deloitte Türkiye 2019).

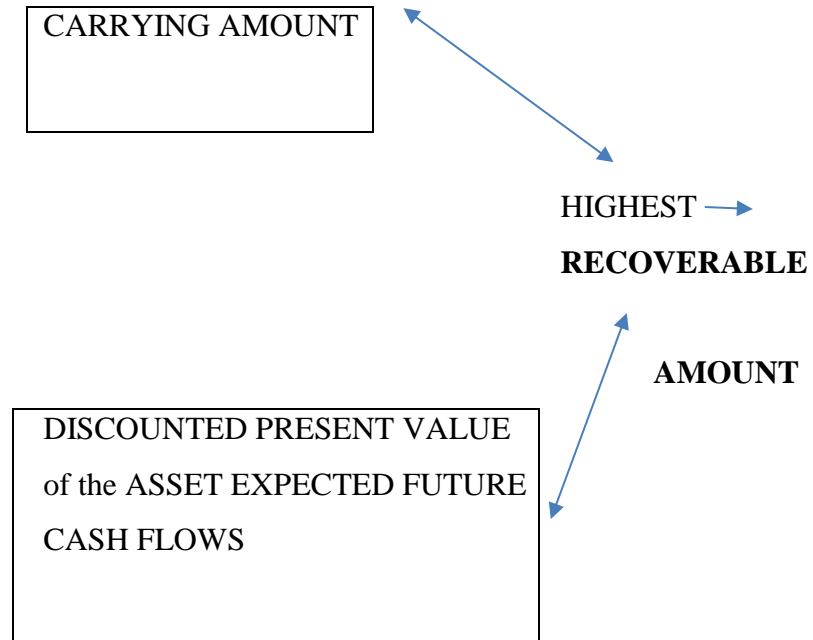


Figure 4.7: Recoverable Amount

Source: Sipahi,B & Akarçay Öğüz, A 2016,' TMS-36 Varlıklarda değer düşüklüğü standardına göre kullanım değerinin hesaplanması', *Muhasebe ve Finansman Dergisi*, Nisan/2016.

Assets that have been impaired as below;

- Land
- Buildings
- Machinery and equipment
- Investment properties with cost value

- Intangible assets
- Goodwill
- Investment in branches and partnerships
- The assets following with Turkish Accounting Standards (TAC) 16 and 38 (Sipahi & Akarçay Öğüz).

Table 4.76: Asset impairment difference

US GAAP	PRC GAAP
Impairment needs if carrying amount > expected future cash flows to be derived from the asset on an undiscounted basis. Measured based on fair value Reversal is prohibited	Impairment needs if an asset's carrying amount > the discounted present value of the asset's expected future cash flows) and net selling price. Measured based on the higher one of value-in-use and net selling price Reversal required if certain criteria are met.

Fair value is the normal purchase-sale value of an economic asset on the day of valuation. The fair value is also called current value. The use of this measure, which was subsequently added to the Tax Procedure Law.

4.2.2.26 Land

Land is an asset of the company which is having the unlimited useful life, so no depreciation is applicable to the land unlike the other long term assets such as buildings, furniture, etc. which have the limited useful life and hence their costs to be allocated to the accounting period in which they are of some use to the company. Although land is a tangible fixed asset, it does not lose value. Land does not deteriorate in physical condition; hence we cannot determine the useful life. It is almost impossible to calculate land depreciation. The value of the land is not constant over the long term - it may increase or deteriorate. In other words, it is fluctuating.

Therefore, it gives an uncertain picture of the asset value, so it is the difficulty of calculations.

Table 4.77: Land difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.27 Land Improvements

All kinds of roads, bridges, tunnels, partitions, scaffoldings etc. constructed underground or aboveground in order to facilitate (Sevilengül, 2011).

Table 4.78: Land Improvements difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.28 Buildings

All kinds of buildings and their integral parts included this account (Sevilengül, 2011).

Table 4.79: Buildings difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.29 Property, plant and equipment /Machinery, equipment and installations

Property, plant and equipment (PP&E) are long-term property, plant and equipment that are physical in nature. These are non-current assets used for a longer period in the company's operations. They are also referred to as fixed assets of the company as they cannot be easily liquidated (Sevilengül, 2011).

PP&E are considered as long-term capital investments. The acquisition of tangible fixed assets shows that management believes in long-term outlook and profitability in the company. PP&E assets are expected to provide economic benefits.

4.2.2.30 Motor vehicles

All land, sea and air vehicles used in the operation activities are followed in this account (Sevilengül, 2011).

Table 4.80: Motor vehicles difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.31 Furniture and fixture

All kinds of office machines and devices used in the operation of the business activities and the tangible assets such as table, armchair, cupboard and furniture are followed in this account (Sevilengül, 2011).

Table 4.81: Furniture and fixture difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.32 Other tangible fix assets

Other tangible fixed assets which are not defined in their own sections are followed in this account (Sevilengül, 2011).

Table 4.82: Other tangible fix assets difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.33 Accumulated depreciation (-)

Explanation of Depreciation Formula

Long-term fixed assets such as tangible fixed assets, buildings, machinery, etc. are expected to provide long-term benefits to companies (Akdogan and Sevilengül, 2007, p.157). They usually represent an important investment made by the company and there are rules of depreciation method and expenses to be applied. Depending on the method which company uses, depreciation expense may be different. This difference effects the calculation of various financial statements and rates. Depreciation is an indirect expense charged on tangible fixed assets in a systematic manner to provide the actual cost of an asset over its useful life is proportionate to benefits derived from such assets (Sevilengül, 2011). The calculation of the depreciation equation requires knowledge of some factors. These factors are:

- **Cost of an Asset:** Asset cost includes the amount paid to purchase such assets and other related expenses to bring such

assets in a usable position such as transportation, installation, taxes paid, etc.

- **Residual Value:** Residual value is the amount that is expected to realize at the end of the useful life of an asset.
- **Useful Life of an Asset:** Expected life of an asset up to which an organization can derive benefits from it.
- **Rate of Depreciation:** It is the rate at which an organization should reduce the value of an asset in proportionate to benefits derived from such assets.

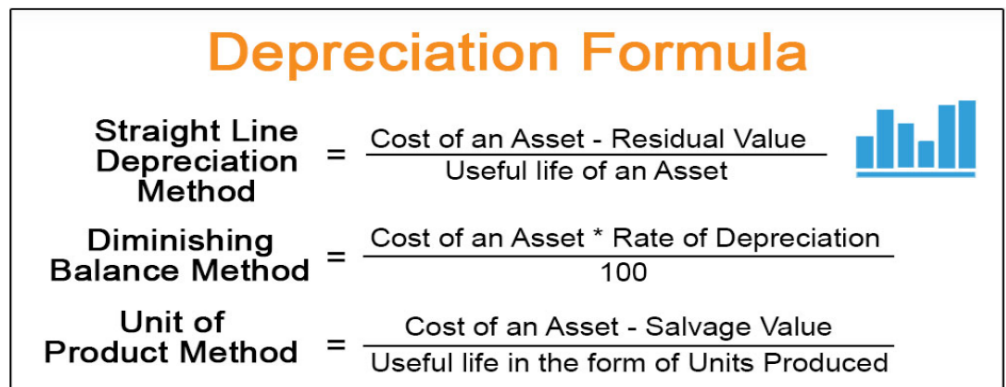


Figure 4.8: Types of Depreciation Formulas

Source: Stice, E. K. & Skou-sen, K.F. (2010). *Intermediate Accounting*, (17th ed.). South Western, Ohio, USA: American Accounting Association

4.2.2.34 Construction in progress

Expenditures for all kinds of materials, labor and overhead expenses which are going to be transferred to the related tangible fixed assets account when the asset completed (Sevilengül, 2011).

Table 4.83: Construction in progress difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.35 Fix assets advances given

The advance payments made for the tangible fixed assets ordered or purchased from any sources or place (Sevilengül, 2011).

Table 4.84: Fix assets advances given difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.36 Intangible assets

Intangible assets, with several rights that result in an increase in the revenue of the entity as a result of their use without physical assets, consist of rights, privileges and advantages that provide a business benefit to the enterprise. These privileges and advantages arise as a result of the enterprise's activities or as to pay a price. Enterprises may have such rights to increase their profitability. In recognition of intangible fixed assets, a certain amount must be paid. This is the only way they can be included in assets (Isiltan, 2014).

Table 4.85: Intangible assets difference

US GAAP	PRC GAAP
Intangible asset amortizes if the asset has a finite life. Do not amortizes, if the asset has an indefinite life, but test regularly for impairment. value is obtained from reference of active market.	Intangible asset amortizes over the shorter of the estimated useful life and the contractual or legal life. If no contractual or legal life, amortizes over the estimated useful life, but not more than 10 years.

4.2.2.37 Rights

It is the account where certain legal savings obtained by paying a price such as patent, license, copyright, concession, trademark, title, and the expenditures made due to the powers that the public authorities allow the enterprise to use in certain areas are followed in this account (Sevilengül, 2011).

Land use Rights:

If the contract assigns the right to control the use of the identified asset for a period to holding the asset, it is a lease or a leasing contract. If customer does not have the right of all economic benefits arising from the use of the asset, it is not a leasing contract.

The right of the tenant starts on date of the leasing contract period. Assets and liabilities for lease payments are included in the statement of tenant with Turkish Financial Reporting Standards (TFRS). The corresponding lease obligations are shown under liabilities (Karataş 2019, p.61).

Table 4.86: Land use Rights difference

US GAAP	PRC GAAP
Classified as long-term operating lease.	Classified as intangible assets before self-used construction or development and begin amortization. Upon construction, the carrying amount of the land use right is transferred to the cost of fixed assets under construction. Transfer to fixed asset and depreciate.

4.2.2.38 Goodwill

Goodwill mainly generates when one company purchases another company at a price which is higher than that of the sum of the fair value of net identifiable assets of the company at the time of acquisition and it is calculated by subtracting the fair value of net identifiable assets of the company from the total purchase price (Sevilengül, 2011).

Table 4.87: Goodwill difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.39 Pre-operating expenses

The expenses incurred for the establishment of the enterprise, the opening of a new branch and the continuous expansion of the works and which do not have a active value in return (Sevilengül, 2011).

Table 4.88: Pre-operating expenses difference

US GAAP	PRC GAAP
Pre-operating expenses are expensed as incurred.	Pre-operating expenses are accumulated until the entity commences operations and are then expensed.

4.2.2.40 Research and development expenses

All kinds of expenditures made for creating new products and technologies in the enterprise, developing their existing ones and similar purposes are followed in this account (Sevilengül, 2011).

Table 4.89: Research and development expenses difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.41 Special cost

Expenses incurred for the purpose of developing or increasing the economic value of the rental real estates. All expenses made for real estate left to the owner at the end of the lease term (Sevilengül, 2011).

Table 4.90: Special cost difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.42 Other intangible fixed assets

Other intangible assets which is not included below categories are followed in this account (Sevilengül, 2011).

Table 4.91: Other intangible fixed assets difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.43 Accumulated amortization (-)

Amortization of intangible assets

Depreciation may be defined as the decrease in the value of the asset due to wear and tear over a period. The depreciation cost is the cost of assets spread over a period generally useful life of an asset. Depreciation is a non-cash expense forming part of profit and loss statements. For example, depreciation on plant and machinery, furniture and fixture, motor vehicles, and other tangible fixed assets (Sevilengül, 2011).

Table 4.92: Accumulated amortization (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.44 Advances given to suppliers

The advance payments made to the domestic and foreign persons and institutions regarding the intangible assets are followed in this account (Sevilengül, 2011).

Table 4.93: Advances given to suppliers' difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.45 Research expenses

All expenses related to searching purpose is followed his account. In order to determine whether the deposit is suitable for the operation, determining the entry points, exploration of the land from ground or air, oil exploration and the drilling expenses made with this purpose, to obtain the necessary operation, experience and geological information are followed in this account (Muhasebedersleri 2019).

Table 4.94: Research expenses difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.46 Preparation and development expenses

The obtaining process of petroleum, which is one of the important energy sources, consist of pre-search, license gaining, searching, development, production and abandonment activities. The transfer of financial information that occurs in this process to the finance tables realistically, is necessary for cost control as well as correct information that will be submitted to the interest groups (Gerekan & Gerekan 2014)

Table 4.95: Preparation and development expenses difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.47 Other depletable assets

Especially the assets cannot be defined in a certain category is including this account (Sevilengül, 2011).

Table 4.96: Other depletable assets difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.48 Accumulated depletion (-)

The items in the assets subject to special depletion are amortized by allocating the depletion according to their characteristics. Depreciation amount of depletion assets are followed in this account (Sevilengül, 2011).

Table 4.97: Accumulated depletion (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.49 Advances given

Advance payments made for assets subject to special depletion (Sevilengül, 2011).

Table 4.98: Advances given difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.50 Prepaid expenses for the following years

The prepaid expenses for the following years and the prepaid expenses in the previous years as of the end of the activity period are recorded in this account after the accrual activity period. The amounts to be accrued in this account as of the end of the activity period and to be accrued in the following activity period are transferred to 180-Income account for the following months (Sevilengül, 2011).

Table 4.99: Prepaid expenses for the following years difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.51 Income accruals

Accrued income is income which has been earned but not yet received. Income must be entered in the books according to period which it is earned. Therefore, accrued income must be recognized in the accounting period in which it arises rather than in the subsequent period in which it will be received (Sevilengül, 2011).

Table 4.100: Income accruals difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.52 VAT deductible for the following years

An account that can be used when VAT is available for deductible for more than a year (Sevilengül, 2011).

Table 4.101: VAT deductible for the following years difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.53 Other VAT

The value added tax deferred until the date when it is possible to be deferred but not paid, is recorded and monitored if the time for defer is more than one year (Sevilengül, 2011).

Table 4.102: Other VAT difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.54 Long term stocks

Due to the policy of prudent purchasing and low stock turnover rate, the inventory items in the enterprise which are more than the one can use in a one-year period are followed in this account (Sevilengül, 2011).

Table 4.103: Long term stocks difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.55 Inventories and tangible fixed assets to be sold

Stocks and fixed assets which could not use in the enterprise for various reasons and lost their sales opportunities are following under this account (Sevilengül, 2011).

Table 4.104: Inventories and tangible fixed assets to be sold difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.56 Prepaid expenses and funds

Income tax, corporate tax and other taxes and funds paid more than one-year advance according to legislation is followed in this account (Sevilengül, 2011).

Table 4.105: Prepaid expenses and funds difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.57 Other fixed assets

All various other fixed assets other than those listed in the account group are followed (Sevilengül, 2011).

Table 4.106: Other fixed assets difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.58 Decrease in value of stocks (-)

Due to natural disasters such as fire, earthquake, flood and deterioration, decay, breakage, cracking, rusting, technological developments and changes in fashion, significant decreases in the physical and economic values of stocks, or other reasons due to other reasons for the decline in the market prices occurrence or inventories to be disposed of (Sevilengül, 2011).

Table 4.107: Decrease in value of stocks (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.2.59 Accumulated depreciation (-)

This account is used to track the depreciation of the assets subject to depreciation (Sevilengül, 2011).

Table 4.108: Accumulated depreciation (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.2.3 Borrowing cost

Borrowing costs can be defined as the interest and other costs incurred by an entity regarding the borrowing of funds. More technically, borrowing costs are the costs of incurring credit expenses such as interest payments on a loan or any other borrowing.

Table 4.109: Borrowing cost difference

US GAAP	PRC GAAP
All interest costs incurred during the asset's acquisition period. Generally only interest includes borrowing cost.	Includes interest, amortization of discounts or premiums, certain ancillary cost, exchange differences. Only interest of project specific loan can be capitalized.

4.2.4 The effects of changes in foreign exchange rates

Table 4.110: The effects of changes in foreign exchange rates difference

US GAAP	PRC GAAP
Record initially at the rate of exchange “at the date of the transaction” (use of averages permitted if a reasonable approximation of actual).	Record initially “at the date of the transaction “or “on the first day of the month in which the transaction occurs”.
FX gain or loses relating to operational activities (receivables, payables, etc.) within income from operations.	FX gain or loss recorded in financial expenses
FX gain or loses relating to debt, investment and cash in other income and expense.	Net FX differences deferred until starts its operations.
FX gain or loses are included in the determination of net income for the period.	FX differences relating to project-specific borrowing for the construction of fixed asset to be capitalized to the extent that it arises before the completion of the fixed asset
	Others are expensed.

4.2.5 Liability base evaluation

Liabilities are debts owed by the business. These are claims of the creditors against the assets of the business. These are claims or obligations that arise out of past or current transactions. Liabilities consist of short and long-term liabilities and equity. Short-term liabilities are to be paid in one year whereas long term liabilities are to be paid after one year. Equity is the source allocated to the company by owners or shareholders.

Current liabilities are accounts payable, accrued expenses, taxes payable, the current due within one-year portion of long-term debt and any other obligations due within a year.

Long term liabilities are debts that must be repaid by the business in more than one year from the date of the balance sheet.

4.2.5.1 Short-term liabilities

Short-term liabilities include those liabilities that are payable at most at the end of one year or at the end of the entity's normal operating period, in accordance with the measure used to allocate current assets (Sevilengül, 2011).

a. Financial Liabilities

- Bank loans
- Leasing Payables
- Interest Payables of Deferred Lease Costs (-)
- Current Maturities of Long-Term Credits and Accrued Interest
- Current Maturities of Bonds and Accrued Interest
- Bonds and Notes Issued
- Other Securities Issued
- Value Difference of Securities Issued (-)
- Other Financial Liabilities

b. Trade Payables

- Suppliers
- Notes Payable
- Rediscount on Notes Payables (-)
- Deposits and Guarantees Received
- Other Trade Payables

c. Other Liabilities

- Due to Shareholders
- Due to Affiliates
- Due to Subsidiaries
- Due to Personnel
- Other Liabilities

- Rediscount on Other Notes Payable (-)

d. Advances Received

- Advances Received
- Other Advances Received

e. Contract Progress Income

- Contract Progress Income
- Inflation Adjustments on Contract Progress Income

f. Taxes Payable and Other Liabilities

- Taxes and Funds Payables
- Social Security Premiums Payable
- Overdue, Deferred or Restricted Taxes and Other Liabilities
- Other Liabilities Payable

Income taxes payable and other tax payable:

The income tax payable is an obligation of the enterprise based on the reported profitability level. Tax can be paid to a variety of governments, including federal and state governments. When the organization pays the income tax, the responsibility disappears. As an alternative to payment, income tax liability can be reduced by offsetting the tax credits granted by the government agency in force. It should be noted that the tax credit typically expires after a period, which is eligible and applicable to an income tax payable. With another explanation, income tax payable is a term that is owed to the debt that a business organization owes to the local government in which it operates and based on its profitability in each period. Since it is a debt that must be paid within the next 12 months, it is considered a current debt, not a long-term debt. Income tax payable, on the other hand, is what appears on the balance sheet as the actual amount in taxes that a company owes to the government. Until it is paid, it remains as a liability.

Other taxes payable is a kind of taxes to be paid by businesses include property taxes, turnover taxes and other small taxes such as municipal fees and vehicle and fuel taxes.

Table 4.111: Short-term liabilities difference

US GAAP	PRC GAAP
Income Tax Payables and Other Tax Payables are separately presented on the balance sheets.	All kinds of tax payables are included in the line called “Tax Payables”. All details are explained footnotes of financial statements.

Other payables:

Provision for litigation is the topic of receivables became suspicious. (Deloitte, 2010).

Warranty expense is an actual cost or the expected cost which a business incurs to repair or replace the goods sold. If a company provides a warranty with the product, they have an obligation to repair or replace the products if it’s defective. This creates a liability at the time the product is sold as the company has a liability which starts when the product is sold (Deloitte, 2010).

It might not be ideal for a firm to record an expense which has not occurred but like recording the Bad Debt Expenses, warranties also are required to be recorded on prior firm history and accordingly record the journal entry.

Table 4.112: Other payables difference

US GAAP	PRC GAAP
Provisions for litigation, loss/pending lawsuits and provision for warranty expenses are included in “Other Payables and Current Liabilities”.	Provisions for litigation loss/pending issues and for warranty shall be shown separately in “Estimated Liabilities” on the balance sheet.

g. Provisions for Liabilities and Expenses

- Prov. for Income Taxes and Other Legal Liabilities
- Prepaid Taxes and Funds on Profit for the Period
- Provision for Employee Termination Benefits

- Provision for Other Liabilities and Expenses

h. Short Term Deferred Income and Expense Accruals

- Short Term Deferred Income
- Expense Accruals

i. Other Short-Term Liabilities

- Other VAT
- Head Office and Branch Current Accounts
- Stock Count Delivery Surpluses
- Other Short-Term Liabilities

4.2.5.2 Long-term liabilities

This account follows the amount of long-term loans received from banks and other financial institutions. Long term investments refer to the financial instruments in the form of stocks, bonds, cash or real estate assets which the company intends to hold more than 365 days to maximize the profits of the company and is reported on the asset side of the balance sheet under the head non-current assets. General types of long-term investments on balance sheet:

1. **Stocks:** Investments made in the form of equity shares of the company which is fundamentally strong and can generate a higher amount of capital appreciation.
2. **Bonds:** It refers to the investments in the fixed income market in the form of g-sec or debentures which generates a steady amount of interest income for the company.
3. **Insurance:** Life insurance is also one of the types of long-term investment since it insures the entire life of the individual by paying a small amount of premium on a yearly basis.
4. **Mutual Funds:** Generally used as a vehicle to park the surplus money in the company in order to earn a higher rate of interest than fixed deposits.

5. **Tax-Free Bonds:** Generally, investments plan is been made here in order to save tax and earn interest as well.
6. **Real Estate Assets:** Investments made in the real estate assets in the form of land, buildings etc. are generally locked up for a considerable amount of time until the project is complete.

i. Financial Liabilities

- Bank Loans
- Leasing Payables
- Deferred Lease Interest Payables (-)
- Bonds Issued
- Other Marketable Securities Issued
- Value Differences of Securities Issued (-)
- Other Financial Liabilities

ii. Trade Payables

- Suppliers
- Notes Payable
- Rediscount on Notes Payable (-)
- Deposits and Guarantees Taken
- Other Trade Payables

iii. Other Long-Term Liabilities

- Due to Shareholders
- Due to Participations
- Due to Subsidiaries
- Other Payables
- Rediscount on Notes Payable (-)
- Deferred or Restructured Debts of Public Sector

iv. Advance Received

- Advances Received
- Other Advances Received
- v. Provisions for Liabilities and Expenses**
- Provisions for Employee Termination Benefits
- Provisions for Other Liabilities and Expenses
- vi. Long Term Deferred Income and Expense Accruals**
- Long Term Deferred Income
- Expense Accruals
- vii. Other Long-Term Liabilities**
- Long Term Deferred or Postponed VAT
- Installation Participation
- Other Long-Term Liabilities

4.2.6 Total shareholder's equity

Net worth (Owner's Equity) is (called when its sole proprietorship) sometimes is also referred to as the book value of the company because owner's equity is equal to the reported asset minus the reported liability (Sevilengül, 2011).

Assets = Liabilities + Net worth, this can be reposed to yield the definition of net worth, which is the balance after the liabilities are subtracted from the assets of the business.

Equity method of accounting for investments,

- ▶ 20% and 50% of the voting power - associate or an affiliate,
- ▶ significant control - use the equity method,
- ▶ accounts for the failure and success of the investee,
- ▶ investment increases by the share of net income (or decreases by the share of net loss) of the investee,
- ▶ dividends received from the associate causes a decrease in the carrying value of the investment.

Consolidation is a meaning that the share of assets, liabilities, equity, income and profits and expenses and losses that are held under the title of the parent company by

using the consolidation method of the parent company and its subsidiaries and the subsidiaries having control power in the parent company, and the consolidated balance sheet, consolidated income statement and other consolidated financial statements and footnotes annexed to these statements.

Table 4.113: Consolidation difference

US GAAP	PRC GAAP
<p>Consolidation, equity and cost methods applied based on definitions of control and significant influence.</p> <p>Consolidate special purpose entity based on equity risk</p>	<p>Consolidation of controlled subsidiaries is optional for some subsidiaries.</p>

The amounts which belong to shareholders, personnel, investments and related companies of payables, advances taken and other related accounts which are shown in long-term and short-term liabilities of the balance sheet should be shown separately as a basic principle.

A. Paid-in capital

- Capital
- Unpaid Capital (-)
- Positive Distinction from Capital Adjustment
- Negative Distinction from Capital Adjustment (-)

B. Capital Reserves

- Share Premium
- Share Premium of Cancelled Shares
- Revaluation Fund of Tangible Fixed Assets
- Revaluation Fund of Investments
- Other Capital Reserves

C. Profit Reserves

- Legal Reserves
- Special Reserves
- Extraordinary Reserves
- Other Profit Reserves
- Special Funds

D. Retained Earnings s

E. Accumulated Deficit (-)

F. Net Profit (Loss) for The Period

4.3 Income statement

The income statement summarizes the revenues earned and expenses incurred by a business over an accounting period (Needles, Powers & Cosson 2013, p.8). An income statement consists of total income generated and total expenses and costs of a company during a specific period and the net profit or net loss in the related period as a result. Income from the main activity of the company, from other ordinary activities of a continuous nature and from extraordinary activities of temporary nature are stated separately. Accordingly, expenses related to the main activity of the company, expenses of a continuous nature from other ordinary activities and expenses of temporary nature arising from the extraordinary activities are also stated separately. Items in the income statement are placed in accordance with the order and explanations stated by the chart of accounts. Balance sheet and income statement tables along with their footnotes and appendices constitute the basic financial statements, whereas the others form the supplementary financial statements.

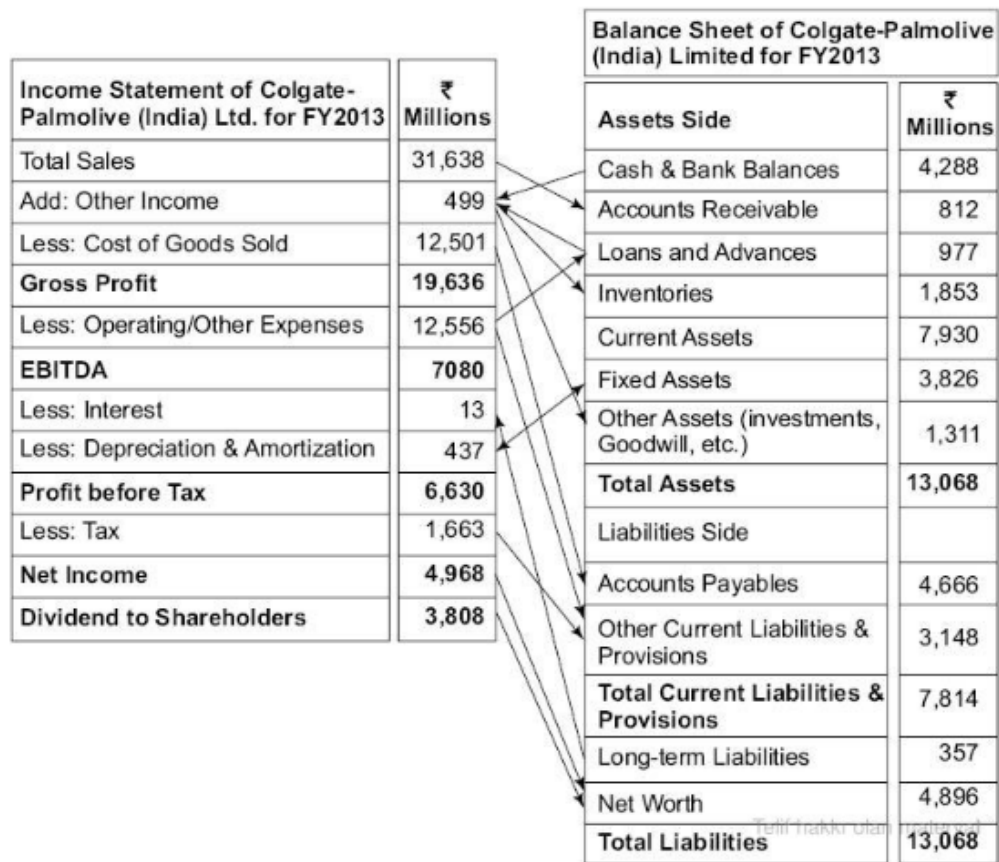


Figure 4.9: Connections Between Income Statement and Balance Sheet

Source: Ramachandaran, N. & Kakani, R. K. (2016) *Financial Accounting for Management* (4th ed.). New Delhi, India: McGraw Hill Education (India) Private Limited

4.3.1 Profit and loss base evaluation

The income statement consists of total income generated and total expenses and costs of a company during a specific period and the net profit or net loss in the related period as a result.

4.3.1.1 Gross sales

Gross sales cover the total values received or accrued against the goods or services sold within the scope of the main activities of the enterprise. Subsidies related to the goods and services sold, maturity differences at the date of sale, exchange differences arising during the export period and tax returns are shown in gross sales are example gross sales (Gib, 2015). Gross sales include following sales;

- Domestic Sales; sales which makes to domestic customer.
- Export Sales, sales which makes to international customer.
- Other Sales

Table 4.114: Gross sales difference

US GAAP	PRC GAAP
Revenue includes following; Freight and insurance revenue charged to customers VAT refund income from the authorities.	Freight and insurance revenues are net off with selling expense VAT refund from the authorities are included in “Non-operating expense”.

4.3.1.2 Sales deductions/discounts (-)

Sales discounts are reductions in price that a business gives to a good customer who pays early or buys in volume (Loughran 2012). It includes the values that should be deducted from gross sales in order to reach the net sales revenue. Sales returns are divided into sales discounts and other discounts. The sales discounts account group includes the following accounts:

- Sales returns (-)
- Sales Discounts (-)
- Other Discounts (-)

Table 4.115: Sales deductions/discounts (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.3.1.3 Net sales

Net Sales = Gross Sales - Sales Deductions (-)

Table 4.116: Net sales difference

US GAAP	PRC GAAP
No difference.	No difference.

4.3.1.4 Cost of sales

Cost of sales can be referred to as those costs which are directly attributable to the production of the goods that shall be sold in the firm or in an organization (Gib, 2015). Cost of goods sold (COGS) is the cost that is directly related to the production of the goods sold in a company. In other words, COGS is the accumulation of the direct costs that went into the goods sold by your company. This amount includes the cost of any materials used in the production of the good and includes the direct labor costs used to produce the said well. Labor costs include direct labor and indirect labor.

COGS or cost of sales is a vital measure of the company's financial statements since this figure is deducted from the company's sales to determine its gross profit. Gross profit is a measure of profitability that evaluates how effective the firm, or an organization is in managing the supply and labor of the production process.

Since the COGS or the cost of sales is a cost of carrying out the business, this may be recorded in the operating loss in return for a statement of profit or loss. Having information about the cost of goods sold or the cost of sales will help investors, analysts and managers to estimate the company's lowest figure. If the cost of sales increases, the company's net profit will decrease. While this action may be beneficial in terms of income tax, it will provide low profit for the company or firm investors or shareholders. At the end of the day, businesses or companies try to keep their sales costs low to report higher net revenues. Cost of sales includes;

- Cost of Goods Sold (Product) (-)
- Cost of Goods Sold (Trade) (-)
- Cost of Services Rendered (-)
- Cost of Sales (Other) (-)

Cost of Sales	Cost of Goods Sold (COGS)
Both direct and indirect cost analysis are related to the sales of goods and services	Just direct cost analysis related the production of goods
Reported in Income Statement before EBIT margin and generally referred as Cost of Sales in the Income Statement	Presented in Income Statement after revenue and named as COGS which includes all direct cost related to generating revenue
Wider than comparing with COGS	Narrower than comparing with Cost of Sales
Not tax deductible	Tax deductible
Calculated the number of goods which are sold	Calculated the number of goods manufactured by the company
Greater than COGS as includes additional costs	Less than Cost of Sales since its includes direct costs of company

Figure 4.10: Cost of Sales VS Cost of Goods Sold (COGS) Table

Source: Sevilengül, O. (2011). *Genel Muhasebe* (18th ed.). Ankara: Gazi Kitabevi (Sevilengül, 2011)

Table 4.117: Scope of sales difference

US GAAP	PRC GAAP
Sales includes; Sales taxes and surcharges Inventory provision Warranty provision Insurance expense	Sales includes; Sales taxes and surcharges are included a separate line called "Taxes and Surcharges" Inventory provision are included in "Assets Impairment Loss" Warranty provision are included in "Selling Expenses" Insurance expenses are included in "Selling expenses"

4.3.1.5 Gross profit/loss

Gross Profit = Net Sales - Cost of Goods Sold (COGS)

Table 4.118: Gross profit/loss difference

US GAAP	PRC GAAP
No difference.	No difference.

4.3.1.6 Operating expenses (-)

In simple terms, **operating expense (Opex)** refers to the money spent on running the business operations of the company smoothly. Generally referred to as “OPEX Cost” and is the primary concern for the management of the company to reduce the same without affecting the product quality and to stay ahead of the competitors. Operating Expense is the Sum total of all the expenses excluding the cost of goods sold, interest, taxes and non-cash expenses like depreciation and amortization to the income statement.

Below are the top 15 most examples of operating expenses (OPEX);

1. Salaries Paid to the Employees
2. Rent
3. Insurance
4. Utility Bills
5. Office Admin Expense
6. Repairs & Maintenance
7. Printing & Stationary
8. Property Taxes
9. Direct Material Cost
10. Advertising Cost
11. Entertainment Cost
12. Travel Cost
13. Transportation
14. Telephone Expense
15. Selling Expenses

Research and Development Expenses (-)

Investments in research and development in the areas of science and technology are one of the essential criteria for a nation to evaluate its economic development and competitive power. Because these investments affect economic growth through various channels such as innovation, capital accumulation and development of human resources. All these factors pave the way for economic development by degrees (Bor et al., 2010, p.171).

Table 4.119: Research and development expenses (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

Marketing, Selling and Distribution Expenses (-)

This line item consists of all the costs require manufacturing the products and selling those products. These costs include cost from factory expenses to marketing expenses. These costs also include personnel costs which are paid to all the employees are its factory works or administrative staff and others who get the salary from the company.

Table 4.120: Marketing, Selling and Distribution Expenses (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

General Administrative Expenses (-)

General and administrative expenses are costs that contribute to the overall business of the company and cannot be directly related to selling or selling. These expenses; overheads include management salaries, accounting fees, and other expenses used to run the business.

Table 4.121: General administrative expenses (-) difference

US GAAP	PRC GAAP
General and administrative expenses are including; <ul style="list-style-type: none"> • Exchange loss • Bank charges • AR provision 	General and administrative expenses are including; <ul style="list-style-type: none"> • Exchange loss are included in a line called “Finance Expenses”, • Bank charges are included in a line called “Finance Expenses”,

<ul style="list-style-type: none"> • Fixed assets impairment • Intangible assets impairment • Gain/loss from disposal of fixed assets • Litigation loss 	<ul style="list-style-type: none"> • AR provision, fixed assets impairment and intangible impairment are included in “Assets Impairment Loss”, • Gain/loss from disposal of fixed assets are included in “Non-operating Expenses/Income”, • Litigation costs are included in “Non-operating Expenses”.
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4.3.1.7 Operating profit/loss

Operating Profit = Gross Profit or Loss - Operating Expenses

Table 4.122: Operating profit/loss difference

US GAAP	PRC GAAP
No difference.	No difference.

4.3.1.8 Income and profit from other operations

Dividend Income from Participations

When the voting right and the right to participate in the management are between 10% and 50% in another business, it is called as affiliates (Yılmaz, 2017). The dividend income obtained from the affiliates to which the companies participate in their capital is following in this account.

Table 4.123: Dividend income from participations difference

US GAAP	PRC GAAP
No difference.	No difference.

Dividend Income from Subsidiaries

When the rate is 50% or more in an entity it is called ad subsidiary (Yılmaz, 2017). The dividend income obtained from the subsidiaries to which the companies participate in their capital is following in this account.

Table 4.124: Dividend income from subsidiaries difference

US GAAP

PRC GAAP

No difference.	No difference.
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Interest Income

Interest income is the amount allocated as the interest received by the company's investments. In fact, income earned from debt money. Companies are the term used to report interest earned on cash, deposit certificates or other investments held in the savings account in the income statement. Since this interest is not part of the original investment, it is recorded separately as interest income. This income is obtained by multiplying the principal amount by the interest rate in the period when the money is borrowed. This amount can be compared to the balance of investments made to estimate the return on investment (ROI) generated by the entity. This income is subject to tax topic (Needles, Powers & Cosson 2013).

The statement of cash flows gives the user information about the cash receipts and cash payments of the business during the accounting period. Whereas cash sources come from many different origins, such as customer payments, loans, and sales of assets and equity, the ways a company uses cash most likely directly trace back to costs. For example, buying equipment, paying invoices, and payroll (Loughran, 2012).
Formats of cash flow:

- a) **Operating:** The sources and uses of cash in the operating section come from revenue, expenses, gains, losses, and other costs (Loughran, 2012).
- b) **Investing:** This section shows sources and uses of cash from debt and equity purchases and sales, purchases of property plant and equipment, and collection of principals on debt (Loughran, 2012).
- c) **Financing:** You report activities such as long-term liability (paying or securing loans beyond a period of 12 months from the balance sheet date) and equity items (sale or repurchase of company stock and payment of dividends) in the financing section (Loughran, 2012).

Table 4.125: Interest income difference

US GAAP	PRC GAAP
<p>Interest income is separately disclosed in a line “Interest Income”. It includes interest income from bank and interest income from investment products.</p> <p><i>Cashflow Classification:</i> Interest income and investment income are included in operating cashflow.</p>	<p>Interest income from bank is included in finance expenses whereas interest income from investment products are included in a separate line called “Investment income”.</p> <p><i>Cashflow Classification:</i> Interest income and investment income are included in investing cashflow</p>

Commission Income

Commission income is an income account that is shown in the income statement (Gib, 2015). Commission revenue is the primary income account for businesses that make money primarily from selling or closing for third parties. Examples include real estate brokers, stockbrokers, insurance agents, travel agents and the like.

Table 4.126: Commission income difference

US GAAP	PRC GAAP
No difference.	No difference.

Provisions No Longer Required

The amounts canceled from the provisions is followed under this account (Gib, 2015).

Table 4.127: Provisions no longer required difference

US GAAP	PRC GAAP
No difference.	No difference.

Gains on Marketable Securities' Sales

In the sale of securities, if the sales amount exceeds the purchase amount if the profit occurs, this profit is followed in this account (Gib, 2015).

Table 4.128: Gains on marketable securities sales difference

US GAAP	PRC GAAP
No difference.	No difference.

Foreign Exchange Gain

Foreign currency differences arising from foreign currency transactions and profits from foreign currency sales are monitored in this account (Gib, 2015).

Table 4.129: Foreign exchange gain difference

US GAAP	PRC GAAP
No difference.	No difference.

Discount on Interest Gain

This account is used to follow the rediscount interest on debt securities and the income generated from the cancellation of the rediscount of notes receivable recorded in the previous period (Gib, 2015).

Table 4.130: Discount on interest gain difference

US GAAP	PRC GAAP
No difference.	No difference.

Gains from Inflation Adjustment

This account shows the incomes arising from inflation (Gib, 2015).

Table 4.131: Gains from inflation adjustment difference

US GAAP	PRC GAAP
No difference.	No difference.

Other Income and Profit from Operations

Other income

Other revenues are those that do not come from a company's main activities, such as interest. Examples of other income include earnings from interest, rent and sale of fixed assets. Companies present their other income in a separate segment before the income from the activities.

Table 4.132: Other income difference

US GAAP	PRC GAAP
Other income includes the following, 1. Government subsidy 2. Donation 3. Penalty	All these expenses/incomes are included in “Non-operating Income/Expenses”

Profit on disposal of fixed assets

When a business has a disposal of fixed assets, the original cost and the accumulated depreciation to the date of disposal must be removed from the accounting records. A disposal of fixed assets can occur when the asset is scrapped and written off, sold for a profit to give a gain on disposal (Gib, 2015).

Table 4.133: Profit on disposal of fixed assets difference

US GAAP	PRC GAAP
Included in operating profit or loss	Included in non-operating gain or loss.

4.3.1.9 Expenses and losses from other operations

Table 4.134 Expenses and losses from other operations difference

US GAAP	PRC GAAP
No difference.	No difference.

Commission Expenses (-)

It is the account that the commission expenses paid to the agencies, representatives and similar enterprises are followed in this account other than the main activity of the entity (Gib, 2015).

Table 4.135: Commission expenses (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

Provision Expenses (-)

This is the account where provisions for the values in the entity's assets are written as an expense (Gib, 2015).

Table 4.136: Provision expenses (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

Losses on Marketable Securities' Sales (-)

In the sale of securities, if the sales amount less than purchase amount if the loss occurs, this loss is followed in this account (Gib, 2015).

Table 4.137: Losses on marketable securities sales (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

Foreign Exchange Losses (-)

Foreign currency differences arising from foreign currency transactions and loss from foreign currency sales are monitored in this account (Gib, 2015).

Table 4.138: Foreign exchange losses (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

Interest Expenses on Discounted Notes (-)

This account is used to track the expenses incurred from the cancellation interest of the note's receivable at the beginning of the new period (Gib, 2015).

Interest expense:

Interest expense represents the amount of interest payable on borrowings that include loans, bonds or other credit limits. Each company needs money to finance its operations from a bank and pays a small fee according to the amount borrowed until a refund is made. These are the costs accrued by the entity for the borrower funds shown in the income statement.

Table 4.139: Interest expense difference

US GAAP	PRC GAAP
Interest expenses is separately disclosed in a line “Interest Expenses”	Interest expenses is included in finance expenses.
Cashflow Classification: Interest expenses is included in operating cashflow.	Cashflow Classification: Interest expenses is included in financing cashflow.

Loss from Inflation Adjustment (-)

This account shows the expense arising from inflation (Gib, 2015).

Table 4.140: Loss from inflation adjustment (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

Other Expenses and Losses (-)

All rest expenses including did not mentioned above is followed under this account (Gib, 2015).

Table 4.141: Other Expenses and Losses (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.3.1.10 Financial expenses

Short-Term Borrowing Expenses (-)

It is the account where interest and other expenses incurred for the borrowings with a maturity up to one year and which are not added to the cost of the assets are followed in this account (Gib, 2015).

Table 4.142: Short-Term Borrowing Expenses (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

Long-Term Borrowing Expenses (-)

It is the account where interest and other expenses incurred for the borrowings with a maturity more than one year and which are not added to the cost of the assets followed in this account (Gib, 2015).

Table 4.143: Long-term borrowing expenses (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.3.1.11 Operational profit/loss

Operational Profit/Loss=Operating Profit/Loss + Income and profit from other operations - Expenses and losses from other operations

Table 4.144: Operational profit/loss difference

US GAAP	PRC GAAP
No difference.	No difference.

4.3.1.12 Extraordinary income and profit

Extraordinary income and profit are an account that includes income and profits such as profits from sales of assets other than account items. This income should be unexpected type (Gib, 2015). These activities do not occur regularly.

Income and Profit Relating to Previous Years

Table 4.145: Income and profit relating to previous years difference

US GAAP	PRC GAAP
No difference.	No difference.

Other Extraordinary Expenses and Loss (-)

Table 4.146: Extraordinary expenses and loss (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.3.1.13 Extraordinary expense and loss

Extraordinary expense and loss are an account that includes expense and loss such as loss from sales of assets other than account items (Gib, 2015). This income should be unexpected type. Profit or loss from extraordinary activities is such which do not arise under the normal course of business. These activities do not occur regularly.

Table 4.147: Extraordinary expenses and loss difference

US GAAP	PRC GAAP
No difference.	No difference.

Idle Capacity Expenses and Losses (-)

It includes expenses related to production and non-working periods (gib.gov.tr, 2015)

Table 4.148: Idle Capacity expenses and losses (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

Previous Period Expenses and Losses (-)

It is the account that shows the amounts that occurred before the current period and which are not charged to the financial statements of these periods due to errors or forgetting, or the subsequent amounts (gib.gov.tr, 2015).

Table 4.149: Previous period expenses and losses (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

Other Extraordinary Expense and Loss (-)

Other expense account items, such as losses arising from the sale of fixed assets, such as losses and expenses are included in the account (gib.gov.tr, 2015).

Table 4.150: Other extraordinary expense and loss (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.3.1.14 Profit/loss for the period

Profit/loss for the period=Operational Profit-Extraordinary Income and Profit-Extraordinary expense and loss.

4.3.1.15 Provisions for taxation and other legal liabilities (-)

It is the account where the tax and legal obligations calculated over the period profit in accordance with the provisions of the relevant legislation are followed. Corporations

with corporate tax payables net profit for the period by making provision for tax and other legal liabilities calculated over the period profit (gib.gov.tr, 2015).

Table 4.151: Provisions for taxation and other legal liabilities (-) difference

US GAAP	PRC GAAP
No difference.	No difference.

4.3.1.16 Net profit/loss for the period

Net profit/loss for the period= Profit/loss for the period- Provisions for taxation and other legal liabilities (-)

Table 4.152: Net profit/loss for the period difference

US GAAP	PRC GAAP
No difference.	No difference.

4.4 Summary Table of Difference Between US GAAP and PRC GAAP

Performance is generally evaluated based on the level of achievement of the objectives, and is the name given to the measurement and evaluation of the relationship between the objectives and the realities of the financial structure of the enterprise, especially the profit situation. (Anic 2019, p.131). The basic elements necessary for presenting the general-purpose financial statements of an enterprise in a way that enables them to be compared with the financial statements of the previous period and the financial statements of other enterprises are called performance elements. If we list performance elements for both PRC GAAP and US GAAP, we can list as income and expenses, assets or liabilities, gains and losses and comprehensive income (Yang, 2013).

When US GAAP and PRC GAAP are compared with each other there are no difference in some of the accounts. However, the accounts which are treated differently, make drastic changes in the outcome of the financial statements.

The following table is a summary list of key differences that define the two accounting frameworks:

Table 4.153: Summary Table of US GAAP and PRC GAAP

	The United States of America Financial Reporting Standards (US GAAP)	The People’s Republic of China Financial Reporting Standards (PRC GAAP)
INTRODUCTION	A set of accounting rules and standards used for financial reporting in the United States of America.	A set of accounting rules and standards used for financial reporting in the People’s Republic of China.
PERFORMANCE ELEMENTS	Revenue or Expenses Assets or Liabilities Gains or Loses Comprehensive Income	Revenue or Expenses Assets or Liabilities Gains or Loses Comprehensive Income
LIQUID ASSET	Restricted cash and bank deposits are separately disclosed in a line on balance sheets as “Restricted Cash” and “Short Term Investment”.	Restricted cash and bank deposits are included in cash and cash equivalents items.
INTEREST RECEIVABLES	Interest receivables are included in “Short Term Investments (Marketing Securities)” unless the amount is material.	Interest receivables shall be separately disclosed in line on balance sheet as “Interest Receivables” under other trade receivables.
RECEIVABLE PROVISION	If customer has no risk, nil provision	Even customer has no risk, provision makes according to AR position.
INVENTORY COSTING METHOD	A variety of inventory costing methodologies such as FIFO, LIFO and weighted-average cost are permitted. Reversal is prohibited.	Use of LIFO to calculate inventory delivery cost is prohibited. Reversal of inventory write downs required if certain criteria are met.
INVENTORY PROVISION	Reversals of write-downs is prohibited.	Reversal of inventory write downs required if certain criteria are met.
TANGIBLE ASSETS	Defines computer’s as software	Defines computer’s as intangible asset

	Properties that generated rental income is treated as fixed assets.	Properties that generated rental income is investment properties.
INTANGIBLE ASSETS	<p>Intangible asset amortizes if the asset has a finite life.</p> <p>Do not amortizes, if the asset has an indefinite life, but test regularly for impairment.</p> <p>Value is obtained from reference of active market.</p> <p>Land use right classified as long-term operating lease.</p>	<p>Intangible asset amortizes over the shorter of the estimated useful life and the contractual or legal life.</p> <p>If no contractual or legal life, amortizes over the estimated useful life, but not more than 10 years.</p> <p>The carrying amount of the land use right is transferred to the cost of fixed assets classified as long-term under construction then transfer to fixed asset.</p>
DEPRECIATION	<p>Straight-Line Method</p> <p>Accelerated Method</p> <p>Unit of Production Method</p> <p>Depreciation started at the acquisition month.</p>	<p>Straight-Line Method</p> <p>Accelerated Method</p>
ASSET VALUATION	<p>Measured based on fair value</p> <p>Reversal is prohibited</p>	<p>Measured based on the higher one of value-in-use and net selling price</p> <p>Reversal required if certain criteria are met.</p>
IMPAIRMENT of ASSET	<p>Impairment triggered if an asset's carrying amount exceeds the expected future cash flows to be derived from the asset on an undiscounted basis.</p>	<p>Impairment triggered if an asset's carrying amount exceeds the discounted present value of the asset's expected future cash flows) and net selling price.</p>
VAT RECEIVABLES	<p>Valued added tax receivables are separately disclosed on the balance sheets as "Value Added Tax Receivables".</p>	<p>Valued added tax receivables are included with the line called "Other Receivables"</p> <p>Details of disclosed in the notes to the financial statements.</p>
PRE-OPERATING EXPENSES	<p>Expensed as incurred.</p>	<p>Accumulated until the entity commences operations and are then expensed.</p>

BORROWING COST	Only interest includes borrowing cost.	Includes interest, amortization of discounts or premiums, certain ancillary cost, exchange differences. Only interest of project specific loan can be capitalized.
FX RATE CHANGES	At the date of the transaction rate is used	At the date of the transaction “or “on the first day of the month
INCOME/OTHER TAX PAYABLE	Are separately presented on the balance sheets.	All kinds of tax payables are included in the line called “Tax Payables”. All details are explained footnotes of financial statements
OTHER PAYABLES	Provisions for litigation, loss/pending lawsuits and provision for warranty expenses are included in “Other Payables and Current Liabilities”.	Provisions for litigation loss/pending issues and for warranty shall be shown separately in “Estimated Liabilities” on the balance sheet.
CONSOLIDATION	Consolidation, equity and cost methods applied based on definitions of control and significant influence.	Consolidation of controlled subsidiaries is optional for some subsidiaries.
REVENUE	Freight and insurance revenue charged to customers and VAT refunds VAT refund income from the authorities.	Freight and insurance revenues are net off with selling expense VAT refund from the authorities are included in “Non-operating expense”.
SALES INCLUDES	Sales taxes and surcharges, inventory provision, warranty provision and insurance expense	Sales taxes and surcharges are included a separate line called “Taxes and Surcharges” Inventory provision are included in “Assets Impairment Loss” Warranty provision are included in “Selling Expenses” Insurance expenses are included in “Selling expenses”
OTHER INCOME INCLUDE	Government subsidy Donation Penalty	All these expenses/incomes are included in “Non-operating Income/Expenses”

INTEREST DIVIDENDS INCOME	& Operating cashflow	Investing cashflow
G&A EXPENSES INCLUDE	Exchange loss Bank charges AR provision Fixed assets impairment Intangible assets impairment Gain/loss from disposal of fixed assets Litigation loss	Exchange loss are included in a line called “Finance Expenses”, Bank charges are included in a line called “Finance Expenses”, AR provision, fixed assets impairment and intangible impairment are included in “Assets Impairment Loss”, Gain/loss from disposal of fixed assets are included in “Non-operating Expenses/Income”, Litigation costs are included in “Non-operating Expenses”.
BORROWING COST/INTEREST EXPENSE	Interest expenses is separately disclosed in a line “Interest Expenses”	Interest expenses is included in finance expenses.

5. APPLICATION: COMPARISON OF SAMPLE FINANCIAL STATEMENTS BY PRC GAAP AND US GAAP

5.1 Application Introduction

The financial statements is prepared by the assumption numbers and the consolidated financial statements prepared in accordance with accounting principles generally accepted in the US (“US GAAP”) and the consolidated financial statements prepared in accordance with accounting principles generally accepted in the PRC (“PRC GAAP”) differ in certain respects.

All amounts represent K USD which given to the financial statements.

5.2 Significant Differences Between US GAAP and PRC GAAP

XYZ Company is an international Chinese medical device manufacturer company and it is providing sales, marketing and after sales operations to 20 different subsidiaries in different countries. Effect of significant differences between US GAAP and PRC GAAP on the financial statements and profit/loss tables of XYZ companies as summarized and shown by using various scenarios.

5.2.1 Restricted cash

Table 5.1: Restricted cash difference

US GAAP	PRC GAAP
Restricted cash and bank deposits are separately disclosed in a line on balance sheets as “Restricted Cash” and “Short Term Investment”.	Restricted cash and bank deposits are included in cash and cash equivalents items. The above details are separately disclosed in the notes of the financial statements.

SCENARIO 1: XYZ Company is an international medical device company manufacturer and XYZ received 75 K USD an order from a customer to be finished and released within the next 3 months. According to agreement was made by the customer, XYZ must transfer this advance payment a separate bank account which cannot be used until the equipment is delivered to the customer. This advance payment received from the customer may be categorized as restricted cash on the XYZ’s balance sheet since this amount can not be used by the company until device shipment. As soon as device shipped this restricted cash can be used by the company for its normal operation.

Table 5.2.: Restricted cash difference between US GAAP and PRC GAAP
on XYZ Company balance sheet

XYZ Company Balance Sheet		
ASSETS		
	US GAAP	PRC GAAP
Cash and cash equivalent	947	1.022
<u>Restricted cash</u>	<u>75</u>	<u>-</u>
Marketable securities	100	100
Trade receivables-short term	2.339	2.339
Account receivables	3.253	3.253
Provisions for doubtful trade receivables (-)	-914	-914
Other receivables-short term	85	85
Inventories	1.646	1.646
Trade goods	2.493	2.493
Provision for Inventories (-)	-847	-847
Contract progress cost	-	-
Prepaid expenses and income accruals for the follow	128	128
Other Current Assets	83	83
CURRENT ASSETS	5.403	5.403

5.2.2 Interest receivables

Table 5.3: Interest receivables difference

US GAAP	PRC GAAP
<p>Interest receivables are included in “Short Term Investments (Marketing Securities)” unless the amount is material.</p> <p>Interest income shall be properly accrued for those bank deposits of the US GAAP concept.</p>	<p>Interest receivables shall be separately disclosed in line on balance sheet as “Interest Receivables”.</p>

SCENARIO 2: XYZ Company has sold new technology medical device to one private hospital. XYZ company makes cash base sales. Due to money shortage of private hospital, head of finance of hospital gave an offer to XYZ company as 90 days open account plus 13,75% advance interest payment. Both parties agreed on all conditions. Sales amount is 750 K USD.

Calculation: 750 K USD x 0,1375 =103 K USD

Table 5.4.: Interest receivables cash difference between US GAAP and PRC GAAP on XYZ Company Balance Sheet

XYZ Company Balance Sheet		
ASSETS	US GAAP	PRC GAAP
Cash and cash equivalent	947	947
<u>Marketable securities</u>	<u>103</u>	-
Trade receivables-short term	2.339	2.442
Account receivables	3.253	3.253
Provisions for doubtful trade receivables (-)	-914	-914
<u>Other Trade Receivables</u>	0	<u>103</u>
Other receivables-short term	85	85
Inventories	1.646	1.646
Trade goods	2.493	2.493
Provision for Inventories (-)	-847	-847
Contract progress cost	-	-
Prepaid expenses and income accruals for the follow	128	128
Other Current Assets	83	83
CURRENT ASSETS	5.331	5.331

5.2.3 Provision for doubtful debts account

Table 5.5: Provision for doubtful debts account difference

<p>If a specific review is performed a customer and this customer has no credit risk, US GAAP allows to make nil provision to this customer</p>	<p>Even after specific review and after the review if a customer has no credit risk, a general provision is made according to AR aging position of the customer unless customers are subject to a totally different credit risks with other customers.</p>
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SCENARIO 3: At the end of fiscal year, XYZ company reviewed its sundry debtors which were 3.253 K USD. Company decided to make 11% provision. None of sundry debtor has credit risk.

Calculation.: $3.253 \times 0,11 = 358$ K USD

Table 5.6.: Provision for doubtful debts account difference between US GAAP and PRC GAAP on XYZ Company balance sheet

XYZ Company Balance Sheet		
ASSETS		
	US GAAP	PRC GAAP
Cash and cash equivalent	947	1.022
Restricted cash	75	-
Marketable securities	100	100
Trade receivables-short term	3.253	2.895
Account receivables	3.253	3.253
Provisions for doubtful trade receivables (-)	-	358
Other receivables-short term	85	85
Inventories	1.646	1.646
Trade goods	2.493	2.493
Provision for Inventories (-)	-847	-847
Contract progress cost	-	-
Prepaid expenses and income accruals for the follow	128	128
Other Current Assets	83	83
CURRENT ASSETS	6.317	5.959

5.2.4 Inventory

Table 5.7: Inventory difference

US GAAP	PRC GAAP
A variety of inventory costing methodologies such as FIFO, LIFO and weighted-average cost are permitted. Reversal is prohibited.	Use of LIFO to calculate inventory delivery cost is prohibited. Reversal of inventory write downs required if certain criteria are met.

SCENARIO 4: XYZ Company's inventory production movements table as below. Company produces 60-unit patient monitor for one new university project, unit sales

price is 300, total sales amount is 18.000 K USD will be paid after product delivery. Since company listed in NYSE (New York Stock Exchange) company so company both using US GAAP and PRC GAAP reporting. LIFO is prohibited PRC GAAP, so company uses FIFO methodology for its stocks and due to company listed NYSE company uses LIFO for US GAAP reporting. In here stock calculation tables, income statement and balance sheet will show together:

Table 5.8.: XYZ Company stock production table

Batch No	Number of Units	Cost of Production Per Unit	Total
1	50	100	5.000
2	75	150	11.250
3	40	200	8.000
TOTAL	165		24.250

Table 5.9: PRC GAAP Allowed inventory calculation table

	Using FIFO	Using WEIGHTED AVERAGE COST	Using LIFO
Sales	\$ 18.000	\$ 18.000	\$ 18.000
Cogs	\$ 6.500	\$ 8.818	\$ 11.000
Gross Income	\$ 11.500	\$ 9.182	\$ 7.000

Table 5.10.: US GAAP Allowed inventory calculation table

	Using FIFO	Using WEIGHTED AVERAGE COST	Using LIFO
Sales	\$ 18.000	\$ 18.000	N/A
Cogs	\$ 6.500	\$ 8.818	N/A
Gross Income	\$ 11.500	\$ 9.182	N/A

Table 5.11.: Inventory COGS difference between US GAAP and PRC GAAP on XYZ Company income statement

XYZ Company Detailed Income Statement				
	US GAAP		PRC GAAP	
	Current Period		Current Period	
A.GROSS SALES	-	9.685		9.685
1.Domestic Sales	5.004		5.004	
2.Export Sales	4.681		4.681	
B.SALES DEDUCTIONS (-)	-	66	-	66
1.Sales Returns (-)	3		3	
2.Sales Discounts (-)	63		63	
C.NET SALES	-	9.618	-	9.618
D.COST OF SALES (-)	-	11	-	7
2.Cost of Goods Sold (Trade) (-)	11		7	
3.Cost of Services Rendered (-)	-		-	
GROSS PROFIT OR LOSS	-	9.607	-	9.612
E.OPERATING EXPENSES (-)	-	4.893	-	4.893
2.Marketing, Selling and Distribution Expenses (-)	3.133		3.133	
3.General Administration Expenses (-)	1.760		1.760	
OPERATING PROFIT OR LOSSES	-	4.714	-	4.719
F.INCOME AND PROFIT FROM OTHER OPERATIONS	-	1.007	-	1.007
3.Interest Income	39		39	
5.Provisions no Longer Required	30		30	
7.Profit from Foreign Currency Exchange	938		938	
G.EXPENSES AND LOSSES FROM OTHER OPERATIONS (-)	-	1.030	-	1.030
2.Provisions (-)	221		221	
4.Loss from Foreign Currency Exchange (-)	810		810	
H.FINANCIAL EXPENSES (-)	-		-	
OPERATING PROFIT OR LOSS	-	4.691	-	4.696
I.EXTRAORDINARY REVENUES AND PROFITS	-	10	-	10
2.Other Extraordinary Revenues and Profits	10		10	
J.EXTRAORDINARY EXPENSES AND LOSSES (-)	-	12	-	12
3.Other Extraordinary Expenses and Losses (-)	12		12	
PROFIT OR LOSS FOR THE PERIOD	-	4.690	-	4.694
K.PROVISIONS FOR TAXES PAYABLE AND	-		-	
OTHER STATUTORY OBLIGATIONS (-)	-		-	
NET PROFIT OR LOSS FOR THE YEAR	-	4.690	-	4.694

SCENARIO 5: Due to rapid technological changes XYZ Company decided to make provisions to two-year-old devices. Provision amount is 374 K USD.

SCENARIO 6: After deal with a strong sales operations XYZ found a customer which accepted to buy two-year-old device and when XYZ Company sold the goods to company, they make reversal on their account.

Table 5.12.: Stock provision difference between US GAAP and PRC GAAP on XYZ Company balance sheet

XYZ Company Balance Sheet		
ASSETS	US GAAP	PRC GAAP
Cash and cash equivalent	947	1.022
Restricted cash	75	-
Marketable securities	100	100
Trade receivables-short term	3.253	3.253
Account receivables	3.253	3.253
Provisions for doubtful trade receivables (-)	-	-
Other receivables-short term	85	85
Inventories	2.146	2.146
Trade goods	2.493	2.493
Provision for Inventories (-)	<u>-347</u>	<u>-347</u>
Contract progress cost	-	-
Prepaid expenses and income accruals for the follow	128	128
Other Current Assets	83	83
CURRENT ASSETS	6.817	6.817

Table 5.13.: Stock provision reversal difference between US GAAP and PRC GAAP
on XYZ Company balance sheet

XYZ Company Balance Sheet		
ASSETS		
	US GAAP	PRC GAAP
Cash and cash equivalent	947	1.022
Restricted cash	75	-
Marketable securities	100	100
Trade receivables-short term	3.253	3.253
Account receivables	3.253	3.253
Provisions for doubtful trade receivables (-)	-	-
Other receivables-short term	85	85
Inventories	2.146	2.493
Trade goods	2.493	2.493
Provision for Inventories (-)	-347	-
Contract progress cost	-	-
Prepaid expenses and income accruals for the follow	128	128
Other Current Assets	83	83
CURRENT ASSETS	6.817	7.164

5.2.5 Value added tax receivables

Table 5.14: Value added tax receivables difference

US GAAP	PRC GAAP
Valued added tax receivables are separately disclosed on the balance sheets as “Value Added Tax Receivables”.	Valued added tax receivables are included with the line called “Other Receivables” Details of disclosed in the notes to the financial statements.

SCENARIO 7: XYZ Company has a subsidiary in Turkey and the VAT rate for medical device in Turkey is 8%.

- XYZ Company-Turkey sold one medical device to one distributor and device’s amount is 200K USD plus 16K USD VAT. Total output VAT is 16 K USD. Since seasonal conditions XYZ did not make more sales.
- XYZ Company-Turkey procures the raw material at the cost of 300K USD, plus VAT of 24K USD VAT receivable from Turkish government.

Total VAT=24K (from procurement)-16K (from sales) =8K USD

Table 5.15.: Value added tax receivables difference between US GAAP and PRC GAAP on XYZ Company balance sheet

XYZ Company Balance Sheet		
ASSETS		
	US GAAP	PRC GAAP
Cash and cash equivalent	947	947
Marketable securities	100	100
Trade receivables-short term	2.339	2.339
Account receivables	3.253	3.253
Provisions for doubtful trade receivables (-)	-914	-914
Other receivables-short term	85	85
Due from shareholders	65	65
Due from personnel	12	12
Value added tax receivables	<u>8</u>	<u>-</u>
Other Receivables	<u>-</u>	<u>8</u>
Inventories	1.646	1.646
Trade goods	2.493	2.493
Provision for Inventories (-)	-847	-847
Contract progress cost	-	-
Prepaid expenses and income accruals for the follow	128	128
Other Current Assets	83	83
CURRENT ASSETS	5.328	5.328

5.2.6 Tangible fixed assets

Table 5.16: Tangible fixed assets difference

US GAAP	PRC GAAP
Defines computer software as fixed assets.	Defines computer software as “Intangible Assets”.
Properties that generated rental income is treated as fixed assets.	Properties that generated rental income is treated as “Investment Properties” which shall be stated with cost value.
Depreciation usually started to book at the acquisition month.	Does not allow to book depreciation at the acquisition month. It allows to book

	depreciation when the asset start to use. Reduced to recoverable amount if an impairment occurred.
--	---

SCENARIO 8: Company XYZ purchased various asset to renew old assets. Assets details are computer 15K USD, accounting software is 8K USD, office equipment is 28K USD and 10K USD furniture.

Table 5.17.: Tangible fixed asset difference between US GAAP and PRC GAAP on XYZ Company balance sheet

XYZ Company Balance Sheet		
ASSETS	US GAAP	PRC GAAP
Trade receivables-long term	4.941	4.941
Other receivables-long term	574	574
Financial non-current Assets	-	-
Tangible fix assets	3.846	3.838
Land	3.785	3.785
Computers	8	-
Machinery,Equipment and Installations	43	43
Furniture and Fixtures	10	10
Accumulated Depreciation(-)		
Intangible assets	-	8
Rights	-	8
Accumulated Amortization(-)	-	-
Assets subject to depletion	28	28
Prepaid expenses and income accruals for the follow	61	61
Other non-current assets	5	5
TOTAL NON-CURRENT ASSETS	9.455	9.455

SCENARIO 9: XYZ company has expensive in vitro diagnostic (IVD) medical device. The purchase price of one IVD device is 350K USD and company has 6 unit of this device. Due to financial decision, XYZ is installing these devices to different hospitals with an agreement with certain time. This device monthly rental income amount is 50K USD.

Total Device Amount: 350K USD x 6 = 2.100K USD

Table 5.18.: Tangible fixed asset sales difference between US GAAP and PRC GAAP on XYZ Company balance sheet

XYZ Company Balance Sheet		
ASSETS	US GAAP	PRC GAAP
Trade receivables-long term	4.941	4.941
Other receivables-long term	574	574
Financial non-current Assets	-	-
Tangible fix assets	5.903	3.795
Land	3.785	3.785
Computers	8	-
<u>Machinery, Equipment and Installations</u>	<u>2.100</u>	<u>-</u>
Furniture and Fixtures	10	10
Accumulated Depreciation(-)		
Intangible assets	-	2.108
Rights	-	8
<u>Investment property</u>	<u>-</u>	<u>2.100</u>
Accumulated Amortization(-)	-	-
Assets subject to depletion	28	28
Prepaid expenses and income accruals for the follow	61	61
Other non-current assets	5	5
TOTAL NON-CURRENT ASSETS	11.512	11.512

5.2.7 Depreciation of tangible assets

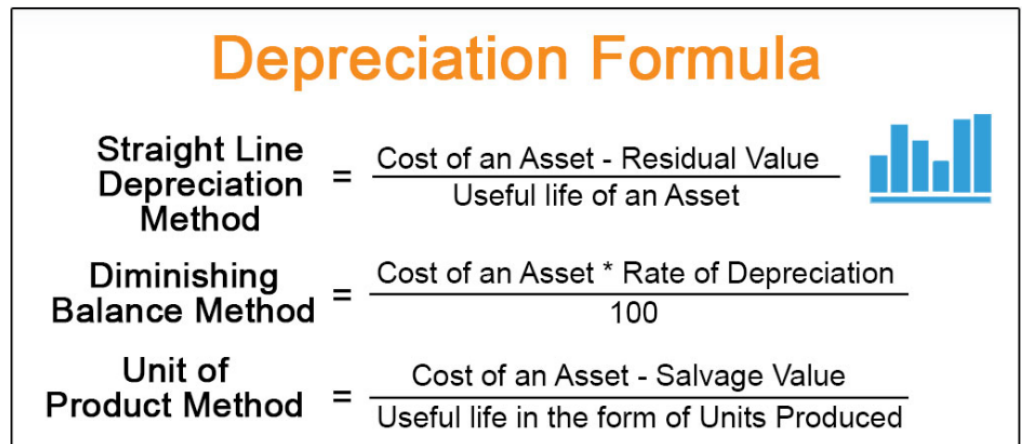
Table 5.19: Depreciation of tangible assets difference

US GAAP	PRC GAAP
<p>Amortize if the asset has a finite life</p> <p>Do not amortize if the asset has an indefinite life.</p> <p>The amount of asset is to be tested for impairment annually.</p>	<p>Amortize over the shorter of the estimated useful life and the contractual or legal life.</p> <p>If no contractual or legal life, amortize over the estimated useful life, but not more than 10 years.</p>

SCENARIO 10: Company XYZ purchased an asset of 120K USD and expected useful life of an asset is 5 years, contracted useful life is 8 years and its expected salvage

value is 200 USD. After 3 years one of customer request to buy this asset from XYZ. XYZ Company decided to sell this asset to vendor as second hand. Secondhand price is 50 K USD. XYZ using straight line depreciation method for depreciation calculation. Asset purchased on 2 years ago and this year is third year. The amount of depreciation company should charge in its profit and loss statement is calculated as below:

Figure 5.1.: Types of Depreciation Formulas



Source: Stice, E. K. & Skou-sen, K.F. (2010). *Intermediate Accounting*, (17th ed.). South Western, Ohio, USA: American Accounting Association

CALCULATION:

Cost of the asset: 120K USD

Useful Life: 5 Years

Depreciation Calculation (According to straight line depreciation method);

$$\frac{\text{Cost of the asset} - \text{Residual Value}}{\text{Useful Life of the Asset}} = \frac{120.000 - 200}{5} = 23.960$$

- Depreciation Ex. 1st Year is 23.960
- Depreciation Ex. 2nd Year is 23.960
- Depreciation Ex. 3rd Year is 23.960
- TOTAL is 71.880/1000 = 72 K USD is 3 years total depreciation expense, 23.960 x 2 = 47.920 remaining depreciation expense
50K USD - 47.9K USD = 2.1K USD Profit

Table 5.21.: Depreciation of tangible fixed asset sales difference between US GAAP and PRC GAAP on XYZ Company balance sheet

XYZ Company Balance Sheet		
ASSETS	US GAAP	PRC GAAP
Trade receivables-long term	4.941	4.941
Other receivables-long term	574	574
Financial non-current Assets	-	-
Tangible fix assets	5.783	3.795
Land	3.785	3.785
Computers	8	-
<u>Machinery, Equipment and Installations</u>	<u>1.980</u>	<u>-</u>
Furniture and Fixtures	10	10
<u>Accumulated Depreciation(-)</u>	<u>-</u>	<u>-</u>
Intangible assets	-	1.988
Rights	-	8
<u>Investment property</u>	<u>-</u>	<u>1.980</u>
Accumulated Amortization(-)	-	-
Assets subject to depletion	28	28
Prepaid expenses and income accruals for the follow	61	61
Other non-current assets	5	5
TOTAL NON-CURRENT ASSETS	11.392	11.392

After sales of fixed asset:

Table 5.22.: Depreciation of tangible fixed asset sales difference between US GAAP and PRC GAAP on XYZ Company income statement

XYZ Company Detailed Income Statement				
	US GAAP		PRC GAAP	
	Current Period		Current Period	
A.GROSS SALES	-	9.685		9.685
1.Domestic Sales	5.004		5.004	
2.Export Sales	4.681		4.681	
B.SALES DEDUCTIONS (-)	-	66	-	66
1.Sales Returns (-)	- 3		- 3	
2.Sales Discounts (-)	- 63		- 63	
C.NET SALES	-	9.618	-	9.618
D.COST OF SALES (-)	-	11	-	11
2.Cost of Goods Sold (Trade) (-)	- 11		- 7	
3.Cost of Services Rendered (-)	-		-	
GROSS PROFIT OR LOSS	-	9.607	-	9.607
E.OPERATING EXPENSES (-)	-	4.893	-	4.893
2.Marketing, Selling and Distribution Expenses (-)	- 3.133		- 3.133	
3.General Administration Expenses (-)	- 1.760		- 1.760	
OPERATING PROFIT OR LOSSES	-	4.714	-	4.714
F.INCOME AND PROFIT FROM OTHER OPERATIONS	-	1.009	-	1.009
3.Interest Income	39		39	
5.Provisions no Longer Required	30		30	
7.Profit from Foreign Currency Exchange	938		938	
9.Other Income and Profit	2		2	
G.EXPENSES AND LOSSES FROM OTHER OPERATIONS (-)	-	1.030	-	1.030
2.Provisions (-)	- 221		- 221	
4.Loss from Foreign Currency Exchange (-)	- 810		- 810	
H.FINANCIAL EXPENSES (-)	-	-	-	-
OPERATING PROFIT OR LOSS	-	4.693	-	4.693
L.EXTRAORDINARY REVENUES AND PROFITS	-	10	-	10
2.Other Extraordinary Revenues and Profits	10		10	
J.EXTRAORDINARY EXPENSES AND LOSSES (-)	-	12	-	12
3.Other Extraordinary Expenses and Losses (-)	- 12		- 12	
PROFIT OR LOSS FOR THE PERIOD	-	4.692	-	4.692
K.PROVISIONS FOR TAXES PAYABLE AND	-		-	
OTHER STATUTORY OBLIGATIONS (-)	-		-	
NET PROFIT OR LOSS FOR THE YEAR	-	4.692	-	4.692

5.2.8 Asset impairment

SCENARIO 11: XYZ Company manufactures technological products and has various machines in the factory of amount 2.350K USD. It is highly possible that the machines in the factory will be impaired due to advances in technology. While these developments are occurring, company received an offer from another company. The details in the proposal are as follows;

- 2.350K USD is offered for the factory.
- The total legal expenses expected to be covered by the seller in relation to the sale is 12K USD.
- According to the appraisal report prepared by the counterparty, the value of the factory was determined as 2.215K USD (fair value).

Question: What will be the recoverable amount?

Answer:

Asset carrying amount: 2.215K USD.

Fair value less cost to sell; 2.350K USD – 12 K USD = 2.338K USD. (Net selling price)

PRC GAAP; asset amount after impairment measured based on the higher one of value-in-use and net selling price. Recoverable amount; value of use or fair value less to sell highest one, it is 2.338K USD.

For US GAAP; asset amount after impairment measures with fair value. Fair value is the normal purchase-sale value of an economic asset on the day of valuation.

Recoverable amount is 2.215 K.

5.2.9 Amortization of intangible assets

Table 5.23: Amortization of intangible assets difference

US GAAP	PRC GAAP
<p>Amortize if the asset has a finite life</p> <p>Do not amortize if the asset has an indefinite life.</p> <p>The amount of asset is to be tested for impairment annually.</p>	<p>Amortize over the shorter of the estimated useful life and the contractual or legal life.</p> <p>If no contractual or legal life, amortize over the estimated useful life, but not more than 10 years.</p>

SCENARIO 12: Company XYZ purchased various intangible assets to make new technology development. Purchased assets details are follows:

- patent for 15K USD and contracted period is 10 but patent’s legal life is 15 years.

- goodwill amount is 100 K.
- software is 24K USD contracted life is 3 but company will use during next 5 years.

US GAAP base evaluation; since the goodwill useful life is not clear US GAAP do not calculate amortization for goodwill, but it is reviewed for impairment whenever changes in events or circumstances indicate that the carrying amount of an asset may not be recoverable.

PRC GAAP base evaluation; PRC GAAP reporting standards amortize tangible assets over the shorter of the estimated useful life and the contractual or legal life so patent amortization amount chooses as 10 years because this is shorter life; software is 3 years due the shorter life is contractual amount. According to PRC GAAP standards, if no contractual or legal life, asset should be amortized over the estimated useful life, but not more than 10 years. Company assuming to have benefit from goodwill coming 20 years but amortization should be calculated up to 10 years.

5.2.10 Rights

Land use Rights

Table 5.24: Land use Rights difference

US GAAP	PRC GAAP
Classified as long-term operating lease.	Classified as intangible assets before self-used construction or development and begin amortization. Upon construction, the carrying amount of the land use right is transferred to the cost of fixed assets under construction. Transfer to fixed asset and depreciate.

SCENARIO 13: XYZ Company signed a five-year lease agreement with the asset owner to establish a research and development center. The contract covers the care services provided by owner and has made the housing insurance itself. Annual

payments are 20 K USD. 5K USD for maintenance and 2K USD for all insurance and other various costs paid by XYZ Company.

Leasing component amount is = 20K USD+3K USD+1K USD=24K USD (Annually)

Table 5.25.: Land use right difference between US GAAP and PRC GAAP on XYZ Company income statement

XYZ Company Detailed Income Statement				
	US GAAP		PRC GAAP	
	Current Period		Current Period	
A.GROSS SALES	-	9.685	-	9.685
1.Domestic Sales	5.004		5.004	
2.Export Sales	4.681		4.681	
B.SALES DEDUCTIONS (-)	-	66	-	66
1.Sales Returns (-)	- 3		- 3	
2.Sales Discounts (-)	- 63		- 63	
C.NET SALES	-	9.618	-	9.618
D.COST OF SALES (-)	-	11	-	11
2.Cost of Goods Sold (Trade) (-)	- 11		- 11	
GROSS PROFIT OR LOSS	-	9.607	-	9.607
E.OPERATING EXPENSES (-)	-	3.153	-	3.153
2.Marketing, Selling and Distribution Expenses (-)	- 3.133		- 3.133	
3.General Administration Expenses (-)	- 20		- 20	
OPERATING PROFIT OR LOSSES	-	6.454	-	6.454
F.INCOME AND PROFIT FROM OTHER OPERATIONS	-	1.009	-	1.009
3.Interest Income	39		39	
5.Provisions no Longer Required	30		30	
7.Profit from Foreign Currency Exchange	938		938	
8.Rediscount Income	-		-	
9.Other Income and Profit	2		2	
G.EXPENSES AND LOSSES FROM OTHER OPERATIONS (-)	-	1.030	-	1.030
1.Commission Expenses (-)	-		-	
2.Provisions (-)	- 221		- 221	
4.Loss from Foreign Currency Exchange (-)	- 810		- 810	
H.FINANCIAL EXPENSES (-)	-	-	-	-
OPERATING PROFIT OR LOSS	-	6.433	-	6.433
I.EXTRAORDINARY REVENUES AND PROFITS	-	10	-	10
2.Other Extraordinary Revenues and Profits	10		10	
J.EXTRAORDINARY EXPENSES AND LOSSES (-)	-	12	-	12
3.Other Extraordinary Expenses and Losses (-)	- 12		- 12	
PROFIT OR LOSS FOR THE PERIOD	-	6.432	-	6.432
K.PROVISIONS FOR TAXES PAYABLE AND	-	-	-	-
OTHER STATUTORY OBLIGATIONS (-)	-	-	-	-
NET PROFIT OR LOSS FOR THE YEAR	-	6.432	-	6.432

Table 5.26.: Land use right difference between US GAAP and PRC GAAP on XYZ
Company balance sheet

XYZ Company Balance Sheet		
ASSETS	US GAAP	PRC GAAP
Cash and cash equivalent	947	1.022
Restricted cash	75	-
Marketable securities	100	100
Trade receivables-short term	2.339	2.339
Account receivables	3.253	3.253
Provisions for doubtful trade receivables (-)	-914	-914
Other receivables-short term	85	85
Inventories	1.646	1.646
Trade goods	2.493	2.493
Provision for Inventories (-)	-847	-847
Contract progress cost	-	-
Prepaid expenses and income accruals for the follow	128	128
Other Current Assets	83	83
CURRENT ASSETS	5.403	5.403
Trade receivables-long term	-	-
Other receivables-long term	-	-
Financial non-current Assets	-	-
Tangible fix assets	3.345	3.365
Land	2.774	2.774
Property, Plant and Equipment	1.532	1.532
Construction in Progress	-	20
Accumulated Depreciation(-)	-961	961
Intangible assets	-	-
Rights	-	-
Accumulated Amortization(-)	-	-
Assets subject to depletion	-	-
Prepaid expenses and income accruals for the follow	61	61
Other non-current assets	-	-
TOTAL NON-CURRENT ASSETS	3.406	3.426

5.2.11 Pre-operating expenses

Table 5.27: Pre-operating expenses difference

US GAAP	PRC GAAP
Pre-operating expenses are expensed as incurred.	Pre-operating expenses are accumulated until the entity commences operations and are then expensed.

SCENERIO 14: XYZ Company has a new subsidiary in Ireland so before they start its operation some expensed is made by mother company. The office in Ireland will at the beginning of next year. Details are office rent is 5K USD, admin expenses and stationary 1.5K USD, maintenance and decoration 25K USD, advertising cost is 3.5K USD, related tax payments are totally 1K USD, travel cost is 10K USD, transportation is 3 K, selling and distribution expenses are 6.5K USD. Total cost is 55.5K USD. In US GAAP reporting 55.5K USD pore-operating expense will expensed in fiscal year but PRC GAAP will be expensed it next year when the office open in Ireland.

5.2.12 Borrowing cost

Table 5.28: Borrowing cost difference

US GAAP	PRC GAAP
All interest costs incurred during the asset's acquisition period. Generally only interest includes borrowing cost.	Includes interest, amortization of discounts or premiums, certain ancillary cost, exchange differences. Only interest of project specific loan can be capitalized.

SCENERIO 15: XYZ Company obtain a 240K USD loan for one year from HSBC Bank to purchase an asset on 1st of January, and at the end of the term 31st of December, both parties agreed to pay 8% interest fee at the maturity of bank loan. This loan used for a spesific procect handling with government as called Private Public Partnership (PPP) Hospital Project. By the time USD loan was used foreign exchange (FX) was 3,5TL after one year FX rate increased to 5,5 TL (VAT Including amount).

$$\text{Yearly Interest Fee in USD} = 240\text{K USD} \times 0,08 = 19,2\text{K USD}$$

1st Jan-Yearly Interest Fee in TL= $(240.000 \times 3,5) \times 0,08 = 840,000 \times 0,08 = 67,200$ TL Yearly) $(67,200/12=5,600$ TL Monthly) 1.425,6 K USD-----
1.425,6 K USD----259,2K usd

31st of Dec-Yearly Interest Fee in USD= $(240.000 \times 5,5) \times 0,08 = 1.320,000 \times 0,08 = 105,600$ TL Yearly) $(105,600/12=8,800$ TL Monthly)-----259,2K USD

US GAAP reporting the asset amount will be $240K+19,2K= 259,20K$

PRC GAAP reporting the asset amount will be $240K+19,2K= 259,20K$

1st Jan; FX=3,5 TL total amount is 907,200 TL

31st Dec; FX=5,5 TL total amount is 1.425,600 TL

$1.425,600-907,200=518,400$ FX difference

PRC GAAP will calculate interest of loan of the asset too since this is a specific project held by government.518,400 FX difference will be included the asset amount since this project is specific.

The asset will be shown in financial statement on year end period as below:

Table 5.29.: Borrowing cost difference between US GAAP and PRC GAAP on XYZ
Company balance sheet

XYZ Company Balance Sheet			XYZ Company Balance Sheet		
ASSETS	US GAAP	PRC GAAP	LIABILITIES	US GAAP	PRC GAAP
	Cash and cash equivalent	947		1,022	Financial liabilities
Restricted cash	75	-	<u>Bank loan-short term</u>	<u>259</u>	<u>259</u>
Marketable securities	100	100	Trade payables	1,185	1,185
Trade receivables-short term	2,339	2,339	Accounts payable	1,185	1,185
Account receivables	3,253	3,253	Other liabilities		0
Provisions for doubtful trade receivables (-)	-914	-914	Advances received	47	47
Other receivables-short term	85	85	Contract progress income	-	-
Inventories	1,646	1,646	Taxes payable and other liabilities	98	98
Trade goods	2,493	2,493	Provisions for liabilities and expenses	0	0
Provision for Inventories (-)	-847	-847	Short term deferred income and expense a	21	21
Contract progress cost	-	-	Other short term liabilities		-
Prepaid expenses and income accruals for the fo	128	128	CURRENT LIABILITIES	1,610	1,610
Other Current Assets	83	83	Financial liabilities	4,785	4,785
CURRENT ASSETS	5,403	5,403	Bank loan-long term	4,785	4,785
Trade receivables-long term	-	-	Trade payables	574	574
Other receivables-long term	-	-	Other long-term liabilities		
Financial non-current Assets	-	-	Advance received		
Tangible fix assets	3,994	3,994	Provisions for liabilities and expenses		
Land	2,774	2,774	Long term deferred income and expense accruals		
Property, Plant and Equipment	<u>259</u>	<u>259</u>	Other non-current liabilities		
Accumulated Depreciation(-)	961	961	TOTAL NON-CURRENT LIABILITIES	5,359	5,359
Intangible assets	-	-	Paid-in capital	3,946	3,946
Rights	-	-	Capital reserves		
Accumulated Amortization(-)	-	-	Profit reserves		
Assets subject to depletion	-	-	Retained earning's		
Prepaid expenses and income accruals for the fo	61	61	Accumulated deficit(-)		
Other non-current assets	1,457	1,457	Net profit or loss for the period		
TOTAL NON-CURRENT ASSETS	5,512	5,512	TOTAL SHAREHOLDERS EQUITY	3,946	3,946
Total ASSETS	10,915	10,915	Total LIABILITIES AND EQUITY	10,915	10,915

5.2.13 The effects of changes in foreign exchange rates

Table 5.30: The effects of changes in foreign exchange rates difference

US GAAP	PRC GAAP
<p>Record initially at the rate of exchange “at the date of the transaction” (use of averages permitted if a reasonable approximation of actual).</p> <p>FX gain or losses relating to operational activities (receivables, payables, etc.) within income from operations.</p> <p>FX gain or losses relating to debt, investment and cash in other income and expense.</p> <p>FX gain or losses are included in the determination of net income for the period.</p>	<p>Record initially “at the date of the transaction “or “on the first day of the month in which the transaction occurs”.</p> <p>FX gain or loss recorded in financial expenses</p> <p>Net FX differences deferred until starts its operations.</p> <p>FX differences relating to project-specific borrowing for the construction of fixed asset to be capitalized to the extent that it arises before the completion of the fixed asset</p> <p>Others are expensed</p>

5.2.14 Income taxes payable and other tax payable

Table 5.31: Income taxes payable and other tax payable difference

US GAAP	PRC GAAP
<p>Income Tax Payables and Other Tax Payables are separately presented on the balance sheets.</p>	<p>All kinds of tax payables are included in the line called “Tax Payables”. All details are explained footnotes of financial statements.</p>

5.2.15 Other liabilities payable

Table 5.32: Other liabilities payable difference

US GAAP	PRC GAAP
Provisions for litigation, loss/pending lawsuits and provision for warranty expenses are included in “Other Payables and Current Liabilities”.	Provisions for litigation loss/pending issues and for warranty shall be shown separately in “Estimated Liabilities” on the balance sheet.

SCENERIO 16: XYZ Company had account payable to of its distributor in the year 2018. XYZ Company decided not to make payment until the problem has been solved with top manager decision. Distributor opened lawsuit against XYZ Company, amount is 250 K USD.

Table 5.33.: Other liabilities payable difference between US GAAP and PRC GAAP
on XYZ Company balance sheet

XYZ Company Balance Sheet		
LIABILITIES	US GAAP	PRC GAAP
Financial liabilities	-	-
Bank loan-short term	-	-
Trade payables	1.185	1.185
Accounts payable	1.185	1.185
<u>Other liabilities</u>	<u>250</u>	<u>-</u>
Advances received	47	47
Contract progress income	-	-
Taxes payable and other liabilities	98	98
Provisions for liabilities and expenses	0	0
Short term deferred income and expense accruals	21	21
Other short term liabilities		-
CURRENT LIABILITIES	1.601	1.351
Financial liabilities	4.785	4.785
Bank loan-long term	4.785	4.785
Trade payables	574	574
Other long-term liabilities		
<u>Estimated Liabilities</u>	<u>-</u>	<u>250</u>
Advance received		
Provisions for liabilities and expenses		
Long term deferred income and expense accruals		
Other non-current liabilities		
TOTAL NON-CURRENT LIABILITIES	5.359	5.359

5.2.16 Equity

Table 5.34: Equity difference

US GAAP	PRC GAAP
<p>Consolidation, equity and cost methods applied based on definitions of control and significant influence.</p> <p>Consolidate special purpose entity based on equity risk.</p>	<p>Consolidation of controlled subsidiaries is optional for some subsidiaries.</p>

Equity method of accounting for investments,

- ▶ 20% and 50% of the voting power - associate or an affiliate,
- ▶ significant control - use the equity method,
- ▶ accounts for the failure and success of the investee,
- ▶ investment increases by the share of net income (or decreases by the share of net loss) of the investee,
- ▶ dividends received from the associate causes a decrease in the carrying value of the investment.

6. CONCLUSION, RESULT and LIMITATIONS

In a globalizing world, trade and capital movements have gradually reached to unrestricted volumes. International integration movements, aggravated competition conditions and technological developments have increased the necessity of companies operating in international markets to adapt to the economic and legal information of these market conditions. It is very important that companies can explain their investment and economic activities in different countries with the same principles, understanding, criteria and concepts and financial statements prepared in a common accounting language. This requires financial reports that are understandable, comparable, timely and accurate (Dan 2003, pp.1-10)

International Accounting Standards Committee (IASC), which emerged in 1973, has positively affected the accounting bodies of all major companies with the aim of formulating and publishing accounting standards and procedures for the presentation of financial statements. There are some differences between these approaches that can lead to significant changes in the way accounts are presented. It is important for an investor to appreciate these differences and to understand how they can affect a company's performance. (Zhang, Lei & Shira 2007, pp. 9,3-79)

Based on 2018 data's, while the United States of America ranked first with a gross national product of 20,412.870 billion dollars, China follows the US in a second place with 14,092.514 billion dollars (OECD, 2019). Based on gross national products, USA and China, which are among the largest economies in the world, have the title of the two biggest countries in the economy due to their power in production and the way they shape the world countries. This has led to both countries creating their own reporting standards and systems from their point of view and systematic financial reporting in line with these standards.

US GAAP is the name of generally accepted accounting standards used in the United States. PRC GAAP is the generally accepted accounting standards used by the People's

Republic of China. In any financial market, investors and other stakeholders will want to evaluate the financial position of the company before making decisions about that company. In recent years, the level of similarity between different reporting standards in terms of international accounting has increased. However, the way accounts are prepared varies depending on the country in which they occur. For example, if we take two companies in the same manufacturing industry. A is a US computer distributor and hardware manufacturing company and accounts are prepared according to American generally accepted accounting principles (US GAAP). When compared, B company is a Chinese hardware distributor based in Shanghai and accounts are prepared according to generally accepted accounting principles of the People's Republic of China and (PRC GAAP) accounting practices (Bao & Chow, 1999).

Performance is generally evaluated based on the level of achievement of the objectives, and is the name given to the measurement and evaluation of the relationship between the objectives and the realities of the financial structure of the enterprise, especially the profit situation. (Anic 2019, pp. 131). The basic elements necessary for presenting the general-purpose financial statements of an enterprise in a way that enables them to be compared with the financial statements of the previous period and the financial statements of other enterprises are called performance elements. If we list performance elements for both PRC GAAP and US GAAP, we can list as income and expenses, assets or liabilities, gains and losses and comprehensive income (Yang, 2013).

In general approaches to accounting reporting, US GAAP and PRC GAAP are similar in the way they use policy-based standards with detailed implementation guidance. As the globalization of the economic environment progresses, more controversial similarities and differences will emerge. Due to the accounting system, PRC GAAP is more adopted day by day and the distance between PRC GAAP and US GAAP decreases. US Generally Accepted Accounting Principles (US GAAP) and Chinese Generally Accepted Accounting Principles (PRC GAAP) serve the same purpose. Both reporting standards provide a framework of accounting principles that can be used in the preparation of financial statements. US GAAP is used in the United States while PRC GAAP is used by the People's Republic of China. Both types of reporting are an international accounting language and system based on common understanding, principles, criteria and concepts around the world. Built to ensure global compliance for accounting procedures. Both frameworks are adapted as to allow provide fair

accounting areas to users. Although both reporting standards report within the framework of similar rules, there are some important differences between them.

China improves transparency in financial reporting day by day. It also undergoes a dual transition from a centrally planned economy to a socialist market economy and from a developing economy to an industrialized economy in which the business environment is constantly changing (Zhang, Lei & Shira, 2007). For example, local PRC GAAP accounting standards have recently been increasingly adapted to international IFRS principles and efforts to promote financial know-how is ongoing. US GAAP is the authoritative publication of accounting and reporting standards in the United States. The GAAP framework of accounting standards has been adopted by almost all public US companies. With all these scopes, when the financial reporting systems of the two major global players are analyzed separately, the differences that can be seen in two frames emerge. China's Accounting Standards (PRC GAAP) remain largely autonomous from globally recognized principles and thus, it makes it difficult to comply with the principles used for cross-border enterprises and multinational enterprises. In addition, China may have difficulties in adapting as a result of innovation and intensity provided by its rapidly developing economy while modernizing its accounting system. In case of a company adopted PRC GAAP, reporting is quoted on the stock exchange, it may issue both A-Stock Share and B-Stock Share. A-Stock Shares; are the certificates that shares are sold to domestic investors. B-Stock Shares; are the certificates that shares are sold to foreign investors. Therefore, a PRC GAAP reporting is required for domestic investors who buys or wish to buy A-Stock Share. Thus, the domestic investor will have no difficulty in understanding the accounting standards of his own country. Also, US GAAP reporting is required for foreign investors who buys or wish to buy B-Stock Shares. May face accounting difficulties as both PRC GAAP and US GAAP reporting's are required. For example, there are different rules for impairment of assets, inventory costs and return, capitalization of development costs, depreciation expenses, interest and dividend expenses and asset valuation. These different methods can have an impact on business rates, profitability and the company's tax burden. Therefore, for a foreign investor who is investing in a company using PRC GAAP, it is essential to understand the PRC GAAP report of the enterprise well and to understand and clearly communicate the differences between PRC GAAP and other global standards.

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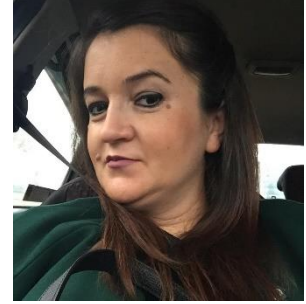
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RESUME



Personal Information:

Name-Surname : Yasemin KAPLAN
Date of Birth / Place : 20.12.1986/Çorlu
E-mail : yaseminkucukkapan@hotmail.com
Driving License : B

Education:

Master's degree : Istanbul Aydin University
Department : Business Administration with Thesis
Date : Sep 2016 - Jan 2020

Bachelor's degree : Bulent Ecevit University
Department : Economic and Managerial and Social Sciences
Date : Sep 2004 - Aug 2009

High school degree : Vize Anatolian High School
Department : Science and Math
Date : Sep 2000 - Jun 2004

Work Experience:

Company Name-1 : Mindray Medikal Teknoloji İstanbul Ltd. Şti.
Position : Accounting and Finance Specialist
Date : March 2015-Stil working
Job Description : Accounting; Book-keeping all the general ledgers according to local statutory financial requirements and application of accounting policy issued by headquarters and local rules. Prepare for financial closing package timely, preparing monthly

group reports according to PRC GAAP and report to Group Finance Department in headquarters on time. Issuing sales invoices, booking company's service invoices, fixed asset, vendor and customer invoices. Employees expense reports bookings, calculating and booking cost of goods, making reconciliations. Prepaid expense bookings, calculating cost of the trade goods in monthly basis. Calculating FX gain and loss, inventory aging reports, account receivables reports, IG Group reconciliation and fixed assets depreciation calculation. Preparing monthly, quarterly and yearly declaration such as VAT1, VAT2, withholding tax declarations, stamp tax declarations, provisional declarations and CIT and preparing monthly BA BS declaration on monthly basis.

Finance; Following and updating daily bank transactions. Preparing bank orders related with import payments, FX buying and selling operations, making weekly payments to the suppliers, petty cash bookings and making advance payment to the employees and suppliers. In addition, preparing balance sheet and profit and loss reports together with group reports. Following, making and checking payments for expat employee's bank account according to the procedure which defined as international rules.

Credit Control and Risk Management; Preparing account receivable and declare shipment reports weekly and monthly basis. Closely following overdue account. Working with Sinasure insurance company. Putting paid invoice data's insurance company system and working together with headquarter credit control department.

Project and System Development; Improve the usage of local software. Transferring internal processes from manual to online system to reduce manpower and paperwork.

Company Name-2 : Mavi Giyim Sanayi ve Ticaret A.Ş. (known as Mavi Jeans)
Position : Accounting Specialist
Date : Dec-2010 – Mar 2015
Job Description : Mavi Jeans is Turkey's first fashion brand to become global. Leading jeans brand in Turkey since the last 22 years, Mavi Jeans has over 250 retail stores and specialty chains in 50 countries including the US, Canada, Turkey, Australia, Germany, Netherlands and Russia. I worked Mavi about five years as an accounting associate. Booking of domestic and foreign service invoices belong to company services according to Turkey tax liabilities. Controlling all inventory entries made by warehouse responsible and finished recording import invoices to accounting software. Calculating cost of goods, preparation and following closing activities on monthly basis. Supporting and coordinating quarterly tax audits. Calculating monthly depreciation value, recording preparing expenses realizations and personal and retails insurance. Preparing

monthly tax declaration forms, BA-BS legal declaration.

Company Name-3 : Gemsa Gemsa General Makine San.Ltd.Şti.
Position : Cost Accounting Finance Specialist
Date : Oct 2009 – Dec 2010
Job Description : Gemsa works on machine industry area which made construction and hole. Also, company works as supplier to distribute and provide related machines spare parts to the customers. I had a chance to learn many kinds of experiences in this company such as, accounting, finance, payroll, import and export. I was working in accountant department as general account and cost account responsible. My responsibilities were in this company; booking invoices which belong service and inventory invoices, issuing export invoices and calculating cost of goods and booking import invoices on accounting software. In addition, following export invoice process and following custom agency operations with custom agency. In daily periods, I was also in charge of following bank accounts transactions, making weekly and monthly payments to the suppliers, booking these payments to the software, calculating production costs. Stuffs payroll data, calculating import products costs, making profits and loss reports, preparing tax documents with financial consultant, giving legal reports as preparing VAT declaration and prepare tax refund documents, observed other kinds of economic responsibilities is belong experiences in this company.

Languages:

-Turkish : Native Language
-English : Fluent

Certificates:

-ISMMO : Certified Public Accountant (CPA / SMMM)
-PWC : Updated Tax Regulation in Turkey
-KPMG : E-Invoice, E-Archive and E-Ledger Regulation
-TACK & TMI : Effective Communication
-IMMIB : Strategic Finance School
-DIGITAL PLANET : E-Invoice and E-Ledger Terms and Usage

Software Skills:

-Promax
-Logo Tiger
-Logo Go

-Micro Standard Series

-MS Office Programs

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-References available upon request