



OCTOBER 2021 / Vol:7, Issue:45 / pp.1753-1761

Arrival Date : 06.10.2021

Published Date : 25.11.2021

Doi Number : <http://dx.doi.org/10.31589/JOSHAS.749>

Cite As : Ulusoy, T. & XXXXXXX, N. (2021). "The Effect Of A Firm's Account Group With The Code 18 Named Prepaid Expenses And Income Accruals For The Following Period On The Market Value Of The Firm According To IFRS", Journal Of Social, Humanities and Administrative Sciences, 7(45):1753-1761

THE EFFECT OF A FIRM'S ACCOUNT GROUP WITH THE CODE 18 NAMED PREPAID EXPENSES AND INCOME ACCRUALS FOR THE FOLLOWING PERIOD ON THE MARKET VALUE OF THE FIRM ACCORDING TO IFRS

Prof. Dr. Tolga ULUSOY

Kastamonu University, Faculty of Economics and Administrative Sciences, Department of Finance and Banking, Kastamonu, Turkey

ORCID ID: 0000-0002-4365-0877

Necmiye AVANOĞLU

Graduate Student Kastamonu University, Faculty of Economics and Administrative Sciences, Department of Finance and Banking, Kastamonu, Turkey

ORCID ID: 0000-0002-8438-4122



ABSTRACT

Turkey has become prominent among the countries of the world with economic globalization. National and international investors have been allowed to closely monitor the financial position of publicly listed companies in Turkey through Istanbul Stock Exchange (ISE). Nowadays, companies that prepare their financial statements according to international standards have become preferred.

Financial statements enable the financial situation of a company in a certain period to be revealed. Investors, loan openers and company owners need data at the same standards in order to compare companies by sector. This has necessitated applying international financial reporting standards in all countries.

Investors and creditors have access to reliable, understandable and comparable company information by arranging their financial statements showing their financial and current status in accordance with international standards.

In the study, it is aimed "to investigate the effect of a firm's account group of Prepaid Expenses and Income Accruals For The Following Period on the market value of the firm according to IFRS". In addition, in the study, the interpretation of the account group named Prepaid Expenses and Income Accruals For The Following Period has been made. As a result of the study, it is seen that the expenses for the following period and stock variables of the companies within the scope of the research are in parallel with each other. There is a significant and positive relationship between them. The study indicates that the transition to IFRS has a positive effect on the market value of companies.

Keywords: Turkey Financial Reporting Standards, Account Group of Prepaid Expenses and Income Accruals For The Following Period, Market Value.

1. INTRODUCTION

With globalization, it has become inevitable to change accounting practices. The lack of international common accounting practices has led to the emergence of different accounting practices, resulting in mutual disputes between companies on merging, purchases, and business. A common accounting language has been required. This has been achieved with the standards developed and published by the International Accounting Standards Board (IASB) (Akgün,2013: 11), International companies aim to be in equal conditions in doing business and competing with rival companies. Different countries around the world applying different accounting systems have reduced the rate of companies being comparable and understandable. IFRS aims to present reliable, comparable and transparent information in financial statements that reflect the financial situation of the companies in the most realistic way (Alkan & Doğan, 2012:88).

1.1. UCOA Account Group With the Code 18 Named Prepaid Expenses and Income Accruals For The Following Period

Uniform Chart of Accounts shows the account group with the code 18 named Prepaid Expenses for The Following Period in the account type 1: Assets; Chart of Accounts, 180 -Income Accruals for Following Period, 181 -Income Accruals accounts are given under the account group with the code 18, Prepaid Expenses And Income Accruals For The Following Period.

This group includes future expenses such as rental expenses, insurance expenses, press expenses, maintenance and repair expenses, interest and commission expenses, and other expenses of the upcoming period. In addition, it consists of accrued income such as rental income, interest income, turnover premiums (based on the contract), license fees, commission income and other revenues from employment period and with a definite debt record (Official Newspaper, 2010 Art.64). UCOA 18 Definition and Operation of Prepaid Expenses and Income Accruals for the Following Period Account

Prepaid Expenses and Income Accruals for the Following Period account group is used for expenses incurred in the current period but belong to the following period and for incomes which are finalized in the current period and for which accounting records will be made later.

These account groups are defined as period separator accounts that require the recording of revenues and expenses to the periods to which they belong, not exceeding one year (short term), as required by the periodicity principle of accounting. The following period's expenses and income accruals account group is divided into two sub-accounts:

180 - Expenses for the Following Period Account

181 Income Accruals Account (Official Newspaper, 2010 Art.61).

2. LITERATURE REVIEW

With the transition to IFRS, many research topics have been covered regarding the application and effects of TFRS (Turkey Financial Reporting Standards) and TAS (Turkish Accounting Standards). There are many studies in the literature on macroeconomic factors that affect the market value of companies, and there is very little research on the effect of international accounting standards on financial statements. There is a positive contribution to the literature especially from studies on account groups, in which the effects of companies traded on the stock exchange on the market value of companies are revealed. Similar studies conducted in previous years are given below.

In Türel's 2009 study, "The Value Relevance of IFRS: The Case of Turkey" aimed to examine the increase in the book value of preferred Turkish companies for the period 2001-2002 and 2005-2006. With the adoption of IFRS, the positive and negative impact of the change in equity on earnings was investigated. As a result of the study, the earnings and book value of the companies applying IFRS increased. The relationship between earnings and increasing value increased between the two periods examined (Türel,2009:119-128).

Atmaca and Çelenk, in their study in 2011, aimed to investigate the effect of IAS and IFRS on the quality of financial analysis of companies with "A Research on Measuring the Effects of International Accounting and Financial Reporting Standards on Financial Analysis by Regression Analysis". This study was carried out by the Istanbul Chamber of Industry by applying the selected survey method to Turkey's top 500 industrial enterprises. The research data were tested with regression analysis, and as a result, it was revealed that IAS and IFRS positively affected the financial analysis of companies. The effects of practices that cause an increase in the quality level of companies on strategic decisions cannot be denied (Atmaca & Çelenk,2011:113-125).

In their studies in 2012, Büyükşalvarcı and Uyar touched upon the relationship between the financial ratios obtained from the financial statements prepared according to different accounting regulations and the stock returns and market values of companies and examined whether the financial ratios of the companies applying different accounting systems differ. It aimed to determine the relationship between these financial ratios and the stock and market values of companies. For this purpose, data of 91 companies in the manufacturing sector in the ISE from year 2004 were used. A significant difference in the financial ratios has arisen between the companies that adopted or did not adopt IFRS. The financial ratios of firms that are not regulated in accordance with IFRS have reported better stock and market values. Therefore, investors have focused on these financial ratios while making decisions (Büyükşalvarcı & Uyar,2012: 25-48).

In Suadiye's study in 2012 titled "Value Relevance of Book Value & Earnings Under the Local GAAP and IFRS: Evidence from Turkey", the equity values in the period 2000-2002 and 2005-2009 were examined. In the study, it is aimed to compare the effects of the two periods requiring transition to IFRS and the value given to the accounting information. As a result of the study, the earnings and book value of the companies applying IFRS were found to be largely related to the stock price in both periods. Book value has become more valuable than earnings. The transition to IFRS has demonstrated its importance in the need for accounting information (Suadiye,2012:301-3108).

In 2014, Sultanoglu, in her study titled "The Effect of UFRS on the Financial Statements of Companies in Borsa Istanbul: Compliance of Financial Information to Needs and Analysis of Financial Statements", examined the financial analysis of financial statements of companies traded in organized ISE with the start of implementation of the IFRS in Turkey and whether it is necessary. The research covers the periods 2000-2004 and 2005-2010 of 26 enterprises active in the manufacturing sector. In the study, panel regression analysis was applied by using price, return and ratio models. As a result, it has been observed that, with the transition to IFRS, financial information is more relevant to the need, book value reflects the market value of the company, the change in net profit reflects positively on stock returns and is more effective in explaining stock returns (Sultanoglu 2014:1-158).

Uyar's study in 2015 titled "The effect of the Financial Reporting Standards on the ability to explain the market value" aimed to compare the effect of TAS/IFRS applications on publicly listed companies in Turkey with the General Communiqué on Accounting Applications. Subject to be researched is whether the IASB's standards are adopted in Turkey's market. Financial data of 225 firms covering the period 2000-2004 and 2005-2009 were tested with panel data analysis. In the study, it was concluded that the financial statements of companies that are regulated by TAS / IFRS were more reliable, IASB was implemented in Turkey's market, and the ability to announce prices increased by 87% in the period of 2005-2009 compared to the previous period (Uyar,2015:1-156).

In 2019, Bulmuş aimed to determine whether the implementation of TAS/IFRS in the 1999-2004 and 2005-2016 periods caused an increase in the quality of financial reports in her study titled "The effect of transition to International Financial Reporting Standards on the quality of financial reports: An application in ISE ". In the study, panel data analysis was applied to the financial statements of 51 companies in the Manufacturing Industry Sector in Istanbul Stock Exchange (ISE). As a result, while no decrease in profit management applications with the transition to TAS/IFRS is observed, there is an increase in relationship between market value and book value.

3. DATA USED IN THE STUDY AND RESEARCH VARIABLES

In the research, the data of 5 companies from publicly listed companies in ISE were used. In terms of the reliability, transparency and suitability of the study data, the method of researching company data through one of the data collection tools, was used. The independent variable of the research is the account group of prepaid expenses and income accruals for the following period. Dependent variable is stocks. Data of the prepaid expenses and income accruals for the following period account groups and closing market price data of companies' stocks are arranged as quarterly data and a data set with the number of observations (5 companies x 2 variables) x (26 data) = 260 was created. The stocks used in the study were purchased from the website of Bigpara.hurriyet.com.tr (Hürriyet Journalism-Printing Corporation). Account data of the companies are accessed from their financial statements on the Public Disclosure Platform.

Table 3-1 Firms in the ISE manufacturing industry that make up the research sample

Sequence	Company Code	Company name
1	ARCLK	Arçelik I.C.
2	ENKAI	Enka Construction and Industry I.C.
3	EREGL	Ereğli Iron and Steel Factories I.C.
4	FROTO	Ford Automotive Industry I.C.
5	SISE	Turkey Bottle and Glass Factories I.C.

Source : www.kap.gov.tr

3.1. The Effects of ARCLK's Prepaid Expenses for the Following Period Account Group on Market Value

The relational chart between ARCLK stock closing values and PEFP account group is as follows. When Figure 3.1 is analyzed, it is seen that ARCLK's expenses for the next months and stock variables are parallel to each other. In the third quarters of 2013 and 2014, the lack of PEFP data causes a distortion in the chart. Generally, the trends of the two variables are parallel to each other. In this context, it would be correct to associate two variables with each other.

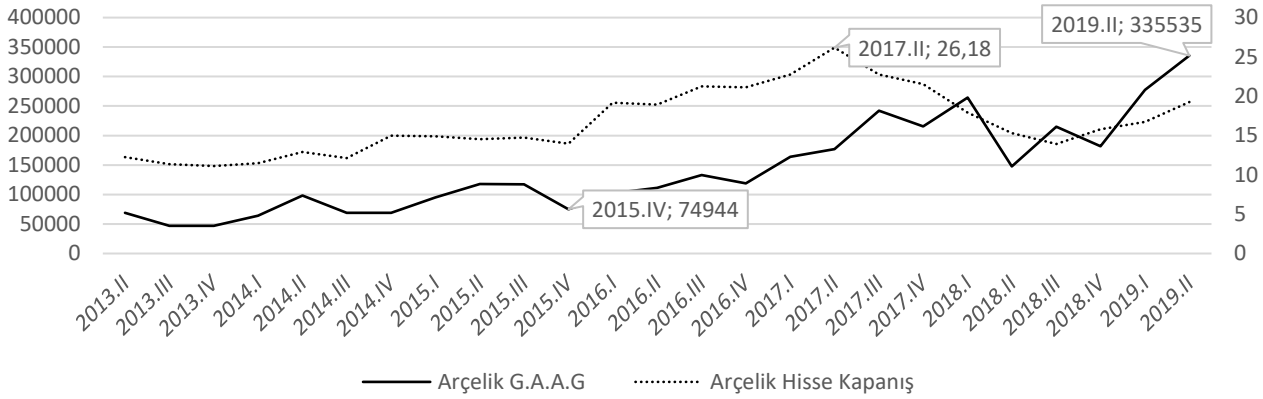


Figure 3-1 ARCLK Future Monthly Expenses-Comparison of Closing Share of the Share

The relationship between ARCLK's Prepaid Expenses for the Following Period Account Group and the market value shows that the accounts moved in the same direction until the first quarter of 2018. Having exhibit an upward trend since the fourth quarter of 2015, PEFP continued its mixed course as of the third quarter of 2017. The closing value of ARCLK stocks has exhibited a downward trend since the third quarter of 2017. On the other hand, the related account group, PEFP, continued its mixed motion with an upward trend.

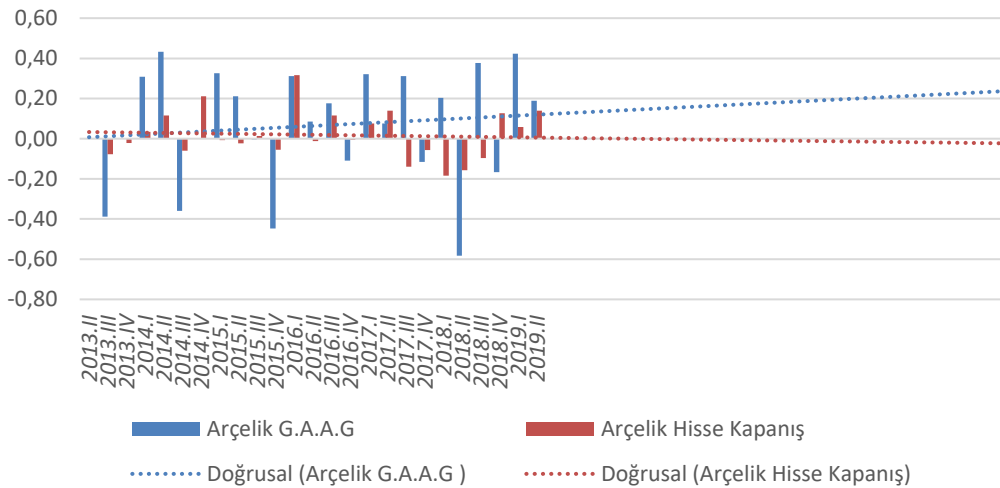


Figure 3-2 ARCLK Variables 2020-2021 Linear Prediction on Logarithmic Difference Graph

Figure 3-2 shows the direction in which the trend has evolved for the past 25 periods analyzed. ARCLK's PEFP exhibits an upward trend in the prediction chart. The closing values of stocks that are in reverse correlation exhibit a downward trend. It is understood that the company's future price formation starting from 2020-2021 will not be parallel between PEFP and stock closing values.

3.2. The Effect of ENKAI's Prepaid Expenses of the Following Period Account Group on Market Value

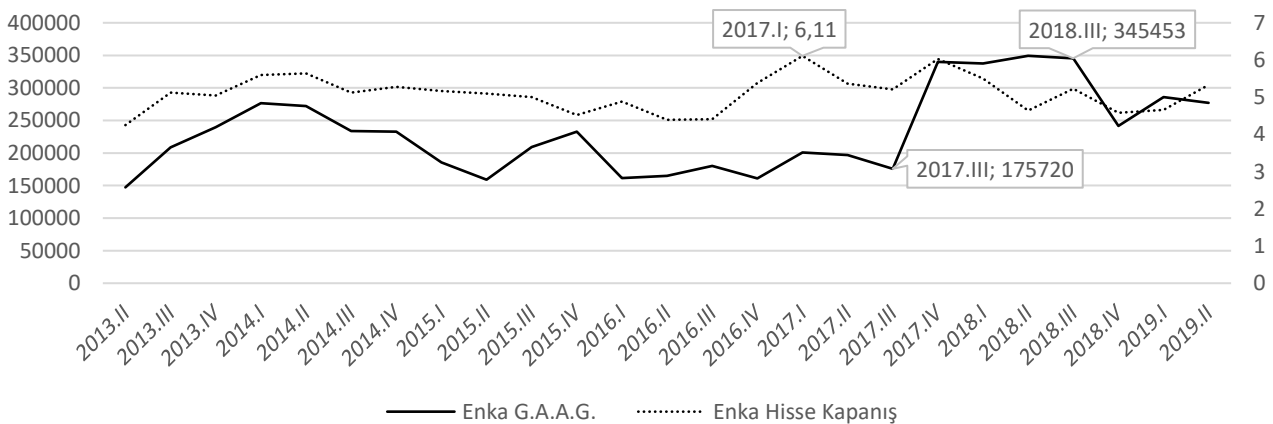


Figure 3-3 ENKAI Next Month's Expenses-Closing Price Comparison

When Figure 3.3 is analyzed, it is seen that ENKAI's expenses for the following period and stock variables are parallel to each other. In the first quarter of 2013, considering the absence of PEFP data, share variable and PEFP variable trends are generally in parallel with each other. ENKAI stocks exhibit a downward trend since the first quarter of 2017. PEFP has been following a mixed course since the third quarter of 2017. Especially the parallel relationship between the third quarter of 2013 and fourth quarter of 2014 can be seen very clearly. Generally, the trends of the two variables are parallel to each other. In this context, it would be correct to associate two variables with each other.

The relationship between ENKAI's Prepaid Expenses for the Following Period Account Group and the market value shows that the accounts moved in the same direction until the first quarter of 2018.

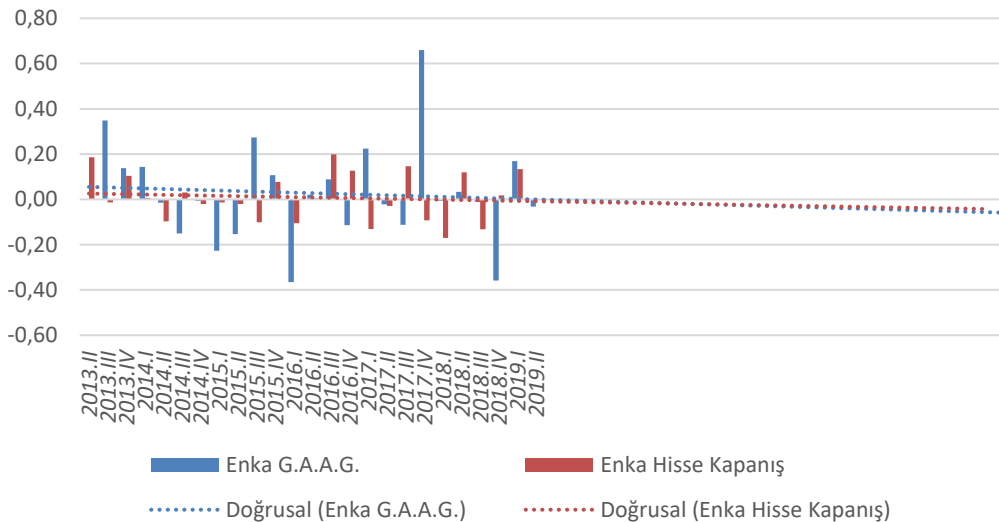


Figure 3.4 ENKAI Variables 2020-2021 linear prediction on the logarithmic difference graph

Figure 3-4 shows the direction in which the trend has evolved for the past 25 periods analyzed. In the forward forecast chart, ENKAI PEFP is expected to exhibit a downward trend. The closing values of stocks that are in complete correlation exhibit a downward trend. It is understood that, starting from the next 2020-2021, the future price formation of the company is parallel to the decreasing trend between PEFP and share closing values.

3.3. The Effect of EREGL's Prepaid Expenses for the Following Period Account Group on the Market Value

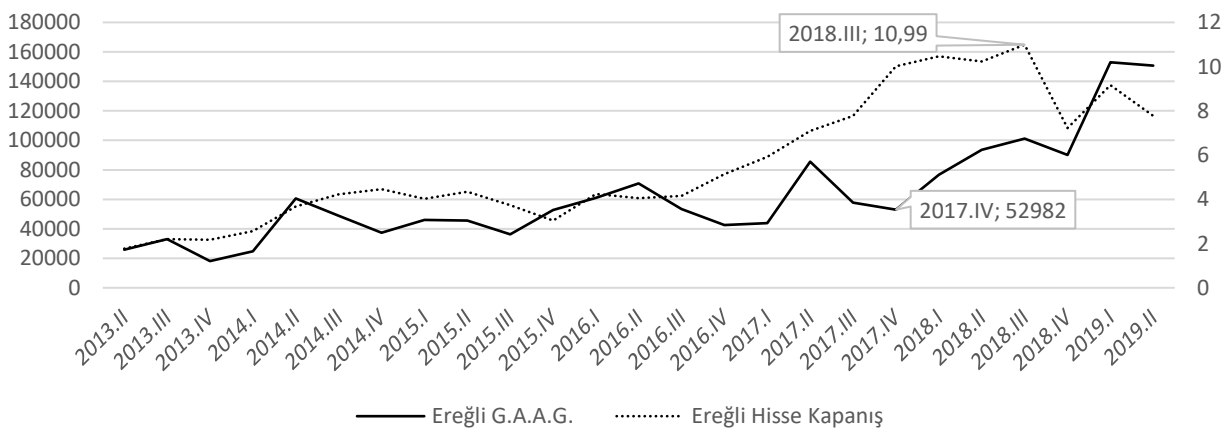


Figure 3-5 EREGL Future Months Expenses - Share Closing Price Comparison

When Figure 3.5 is analyzed, it is seen that EREGL's expenses for the following period and stock variables are parallel to each other. In the first quarter of 2013, considering the absence of PEFP data, share variable and PEFP variable trends are generally in parallel with each other. Especially between the third quarter of 2013 and fourth quarter of 2014, parallel relationship between the quarters can be seen very clearly. Generally, the trends of the two variables are parallel to each other. In this context, it would be correct to associate two variables with each other. In the third quarter of 2018, the closing price of the stocks exhibit a downward trend. PEFP has exhibited an upward trend since the fourth quarter of 2017.

The relationship between EREGL's Prepaid Expenses for the Following Period Account Group and the market value shows that the accounts moved in the same direction until the first quarter of 2018.

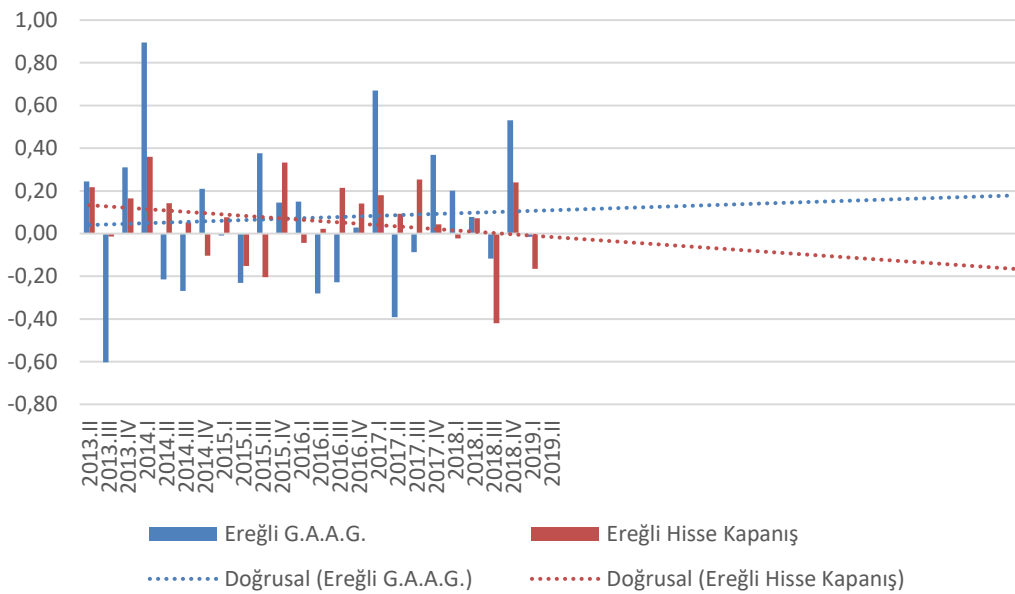


Figure 3-6 EREGL Variables 2020-2021 Linear Prediction on Logarithmic Difference Graph

Figure 3-6 shows the direction in which the trend has evolved for the past 25 periods analyzed. EREGL's PEFP exhibits an upward trend in the forecast chart. The closing values of stocks that are in reverse correlation exhibit a downward trend. It is understood that the company's future price formation starting from 2020-2021 will not be parallel between PEFP and stock closing values. The downward trend in the stock closing price is occurring faster than the PEFP upward trend. It can be easily said that stock closing prices will exhibit a downward trend.

3.4. The Effect of FROTO's Prepaid Expenses for the Following Period Account Group on the Market Value

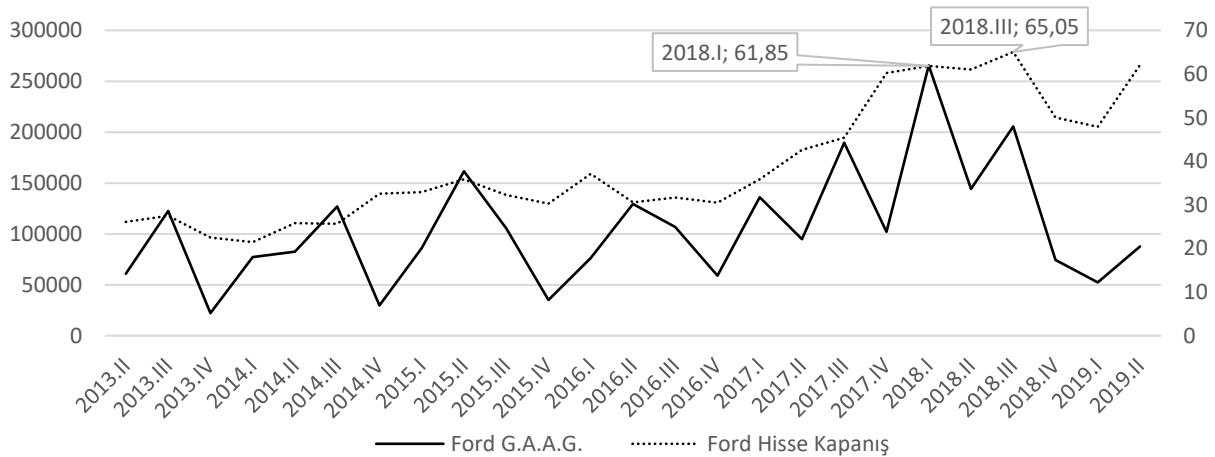


Figure 3-7 FROTO Future Monthly Expenses - Share Closing Price Comparison

When Figure 3.7 is analyzed, it is seen that FROTO's expenses for the following period and stock variables are parallel to each other. In the first quarter of 2013, considering the absence of PEFP data, stock variable and PEFP variable trends are generally in parallel with each other. FORD's PEFP follows a mixed course between 2013-2019. FROTO share closing values, on the other hand, continued their upward trend.

The relationship between FROTO's Prepaid Expenses for the Following Period Account Group and the market value shows that the accounts moved in the same direction until the first quarter of 2018.

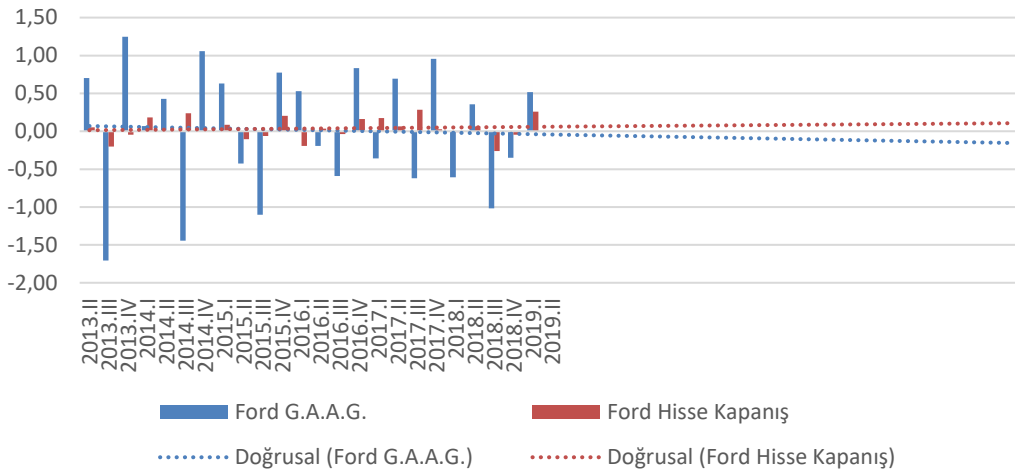


Figure 3-8 2020-2021 Linear Prediction on FROTO Variables Logarithmic Difference Graph

Figure 3-8 shows the direction in which the trend has evolved for the past 25 periods analyzed. In the forward forecast chart, FROTO's PEFP is expected to exhibit a downward trend. The closing values of stocks that are in reverse correlation enter a slightly increasing trend. It is understood that the company's future price formation starting from 2020-2021 will not be parallel between PEFP and stock closing values. The tendency of the variables to move together will continue to decrease linearly.

3.5. The Effects of SISE's Prepaid Expenses for the Following Period Account Group on Market Value

When Figure 3.9 is analyzed, it is seen that FROTO's expenses for the following period and stock variables are parallel to each other. In the first quarter of 2013, considering the absence of PEFP data, share variable and PEFP variable trends are generally in parallel with each other. Especially, this parallel relationship between the first quarters of 2017 and 2018 can be seen very clearly. Generally, the trends of the two variables are parallel to each other. In this context, it would be correct to associate two variables with each other.

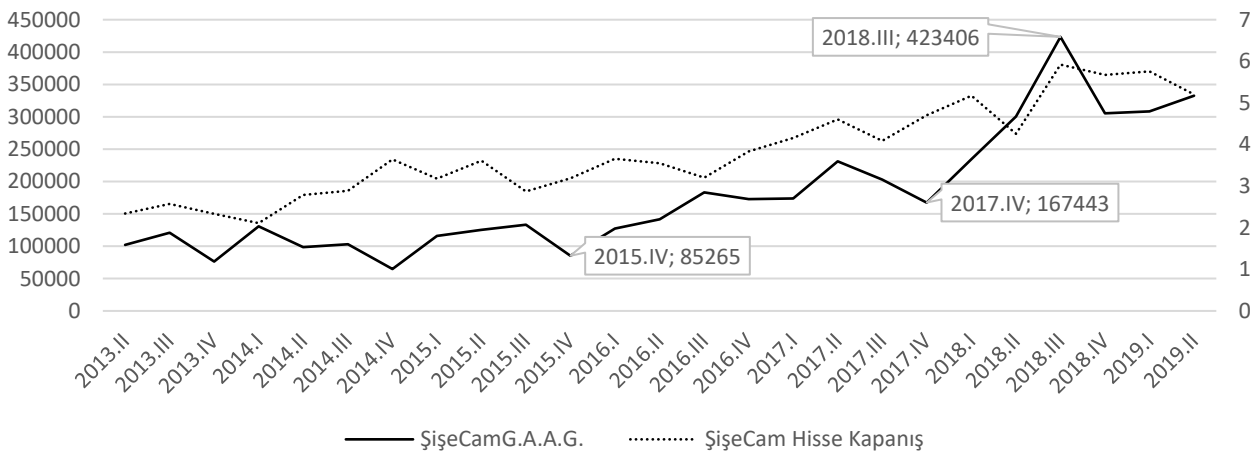


Figure 3-9 SISE Expenses for the Next Months - Comparison of Closing Share of the Share

The relationship between SISE's Prepaid Expenses for the Following Period Account Group and the market value shows that the accounts moved in the same direction until the first quarter of 2018.

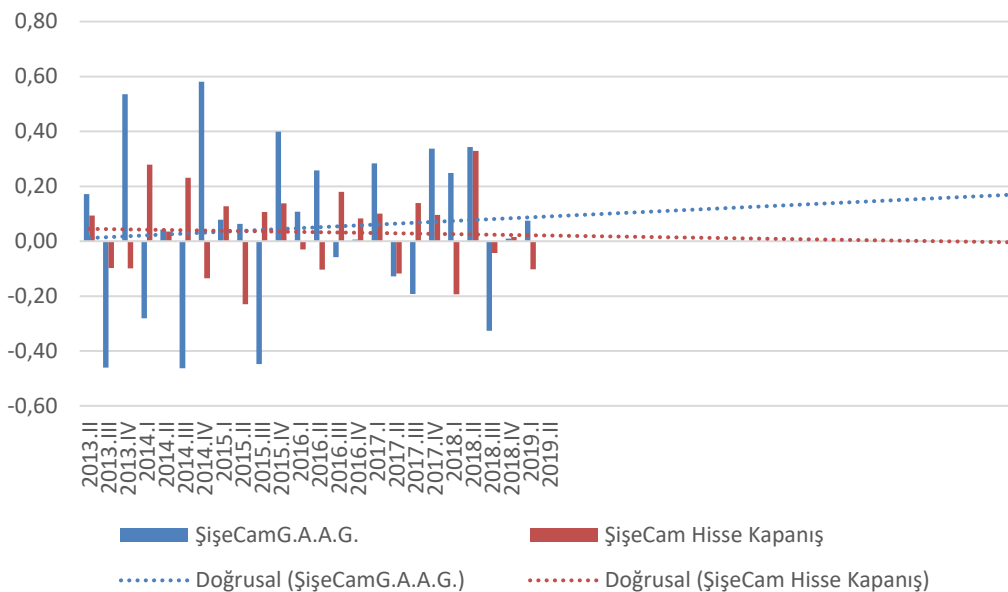


Figure 3- 10 Şişecam I.C. Variables 2020-2021 linear prediction on the logarithmic difference graph

Figure 3-10 shows the direction in which the trend has evolved for the past 25 periods analyzed. SISE's PEFP exhibits an upward trend in the forecast chart. The closing values of stocks that are in reverse correlation exhibit a downward trend. It is understood that the company's future price formation starting from 2020-2021 will not be parallel between PEFP and stock closing values. The downward trend in the stock closing price is occurring faster than the PEFP upward trend. It can be easily said that stock closing prices will exhibit a downward trend.

4. CONCLUSION

International financial reporting standards, which are accepted as a requirement of a common accounting system, have been adopted worldwide. In our country, there was previously an amendment in the financial statements prepared in accordance with tax laws and procedures enforced financial reporting standards in Turkey in 2012 with the adoption of Turkish trade law. With this amendment, it is aimed that investors, managers and lenders can evaluate companies by looking at the financial statements of the company.

With the valuation of the company, it is aimed to reflect the changes in the assets and resources of the companies to the financial statements in the most appropriate way. Especially for companies traded in the capital market, providing investors with transparent, reliable and comparable financial information about company performance is of great importance in investment decisions. Market values of firms are affected by many factors such as cash flows, time value of money, intellectual capital, profitability and macroeconomic variables. These standards have brought many differences, mainly in the valuation criteria to the accounting system. With these latest regulations, it is thought that another factor affecting the market value of companies may be the changes brought about by the new accounting system.

For this purpose, in this study, the effect of the account group of Prepaid Expenses for the Following Month on the market value of a firm is analyzed according to IFRS. In our country, IFRSs were translated into Turkish in 2005, but the application of TFRS was made obligatory in publicly listed companies by the Turkish Commercial Code adopted in 2012. Therefore, this study is limited to the data of 5 randomly selected companies traded in ISE and operating in the manufacturing industry for a 7-year period covering the years 2013-2020. In the study, the effect of the firms' prepaid expenses account on the market value was revealed by simple regression analysis.

In the study, the relationship between the 7-year stocks of the companies that make up the sample of the study and their expenses for the following period was created and interpreted in separate graphs. The effect of the expenses for the following period variable on the stocks of the manufacturing industry companies in the ISE has been investigated. As a result of the analysis, the variables were compared linearly on the graph and evaluated by considering their expressions regarding the relevant evaluations.

The result of our study shows that when the analysis results of the 5 companies that make up the sample of the study are evaluated, it is seen that the results are in the same direction. As a result of the study, it is seen that

the expenses and stock variables of the companies within the scope of the research are in parallel with each other. There is a significant and positive relationship between them. The study indicates that the transition to IFRS has a positive effect on the market value of companies.

REFERENCES

- Akgün, A.İ. (2013). Effects of international financial reporting standards on financial analysis; A research for the ISE. *Doğuş University Journal*, 14(1),10-26.
- Alkan, G. İ. & Doğan O. (2012) Short and long term effects of international financial reporting standards on financial ratios: A research at ISE. *Accounting and Finance Journal*.
- Büyükşalvarcı, A. & Uyar, S. (2012). The relationship between financial ratios obtained from financial statements prepared according to different accounting regulations and companies' stock returns and market values. *Accounting and Finance Journal*, 25-48.
- Suadiye, G. (2012). "Value relevance of book value & earnings under the local gaap and ifrs: evidence from turkey", *Ege Academic Review*, 12(3),301- 310.
- Sultanoğlu, B. (2014). *The Effect of Ufrs on the Financial Statements of Companies in Borsa Istanbul: Compliance of Financial Information to Needs and Financial Statement Analysis*. Unpublished doctoral dissertation. Başkent University, Institute of Social Sciences, Department of Business Administration, Ankara.
- TFRS1, (2018). First-time Adoption of Turkey Financial Reporting Standards (IFRS 1). Accessed on 3 November, 2018 from Public Oversight Accounting and Auditing Standards Authority Website: http://kgk.gov.tr/TFRS_1.pdf.
- TFRS13, (2019). Fair Value Measurement (TFRS_13). Accessed on 4 April, 2019 from Public Oversight Accounting and Auditing Standards Authority Website: http://kgk.gov.tr/TFRS_13.pdf.
- TFRS/EK2, (2019). Draft Chart of Accounts in Compliance with Financial Reporting Standards. Accessed on 31 March , 2019 from Public Oversight Accounting and Auditing Standards Authority Website: http://kgk.gov.tr/TFRS/EK_2.pdf.
- Türel, A. (2009). "The value relevance of ifrs: the case of Turkey", *Acta University Danubius economica*, 5(1), 119-128.
- Uyar, U. (2015). *The Effect of Financial Reporting Standards on Market Value Explanation Power*. Doctoral dissertation. Pamukkale University, Institute of Social Sciences, Department of Business Administration, Denizli.
- VUK, (1961). Tax Procedure Law- Legislation Order: 4 Volume: 1 Page: 1037.md.261-268. On April 2019, [https://www.mevzuat.gov.tr/Retrieved from MevzuatMetin / 1.4.213.pdf](https://www.mevzuat.gov.tr/Retrieved%20from%20MevzuatMetin%201.4.213.pdf).