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ACCOUNTING POLICY OPTIONS UNDER IFRS: EVIDENCE FROM TURKEY

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ABSTRACT

Although one of the main purposes of International Accounting Standards Board (IASB) is to improve comparability of financial statements by eliminating different accounting treatments applied by companies, International Financial Reporting Standards (IFRSs) still permit choices in accounting treatment of similar transactions and events. This paper examines the accounting choices made by Turkish listed companies in cases where IFRSs permit a choice between alternative accounting policies. The paper highlights 11 such accounting policy choices and presents the descriptive empirical results on which accounting policies were in fact chosen by a sample of 235 Turkish listed companies after the adoption of IFRSs. The results show that companies choose different accounting policies concerning measurement model for plant, property and equipment and investment property which impair the comparability of financial information between companies. Furthermore, lack of disclosures relating to chosen accounting policies is also identified in some cases.

✂ IFRS, Turkey, accounting policies, comparability, GAAP

JEL code: M41, M48

INTRODUCTION

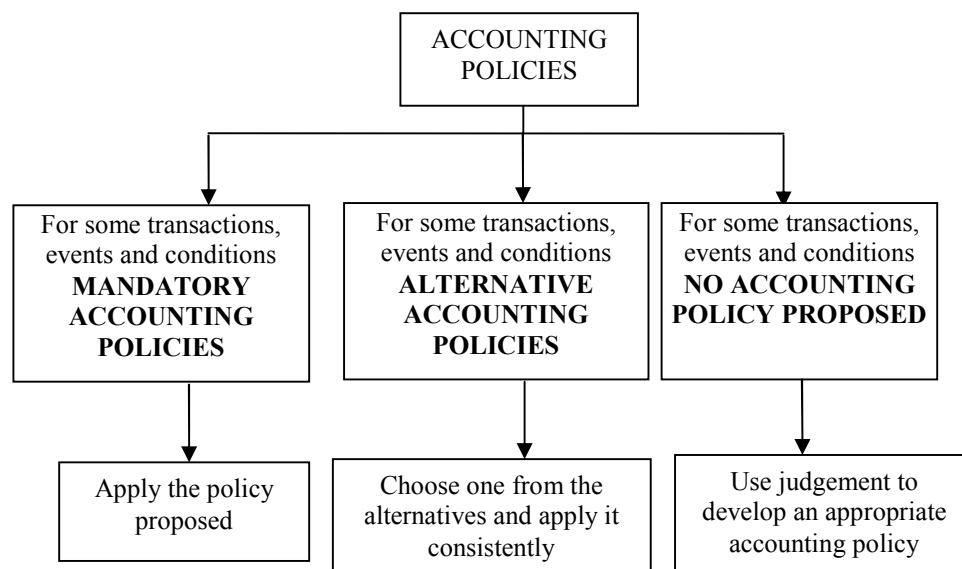
Implementing International Financial Reporting Standards (thereinafter “IFRSs”) for the first time brings forth the problem of selecting appropriate accounting policies (Krupová & Roubíčková, 2011: 351). By definition, accounting policies are principles, basics, conventions, rules and practices applied by an entity in preparing and presenting financial statements. They consist of methods related to

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measurement and accounting of assets, liabilities, revenues and expenses (IAS 8, paragraph 5). IFRSs comprise both mandatory and selective accounting policies. If an IFRS specifically addresses a transaction, other event or condition, a company must follow the prescribed accounting policy or select the most appropriate one among alternatives allowed. In the lack of a particular accounting policy that addresses a transaction, other event or condition, management may make judgement to develop and apply an accounting policy. When making judgement, management should refer to the requirements in other IFRSs dealing with similar and related issues and the definition, recognition criteria and measurement concepts for assets, liabilities, revenues and expenses in the Framework (IAS 8, paragraph 10). Moreover, management may also consider the pronouncements of other standard-setting bodies that use similar conceptual framework, other accounting literature and accepted industry practices (IAS 8, paragraph 11). Accounting policy developed by management should result in information that is relevant to the economic decision-making needs of users and reliable (IAS 8, paragraph 10).

Figure 1 displays accounting policy choices under IFRS.

Figure 1. Accounting policy choices under IFRS



The objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions (IFRS Framework, paragraph 12). For financial information to be useful, information provided in financial statements should be comparable. International Accounting Standards Board (thereinafter IASB) believes that if companies account and report similar transactions and events in a similar way this will assist users not only to evaluate financial position

and performance of a company through time but also to evaluate relative financial position, performance and changes in financial position of companies (IFRS Framework, paragraph 39). Despite the Board's intention of not to permit choices in accounting treatment of similar transactions and events, most accounting standards allow companies to select an accounting policy.

Empirical evidence show that application of different accounting policies to similar transactions and events impairs the usefulness of financial information. For example, Mechelli (2009) analyzes a sample of financial statements of Italian listed groups in order to see whether companies comply with the requirements of IAS 7 and whether there are any differences between companies in applying IFRS. The results show a high degree of heterogeneity in applying IFRS and a high degree of noncompliance with IAS 7 by Italian groups. Mechelli (2009) concludes that the high degree of heterogeneity could impair the comparability of financial statements across entities, requiring further efforts by IASB to reduce options permitted in its standards. Users should therefore be informed of the accounting policies employed in the preparation of the financial statements to differentiate between the accounting policies for similar transactions and other events used by different entities. In other study, Kvaal and Nobes (2010) investigate whether pre-IFRS national practice continues after the adoption of IFRS. Their results provide significant evidence that pre-IFRS national practice continues where this is allowed within IFRS. In this study we examine choices made by 235 Turkish listed companies in respect of 11 accounting policy choices that IFRSs permit. Our results provide evidence that Turkish listed companies choose different accounting policies which lead to differences in reported financial information and thus impair the comparability of financial information between companies.

The purpose of this paper is, therefore,

- to identify whether Turkish listed firms disclose their accounting policies in accordance with IFRSs,
- to provide empirical results on accounting policies chosen by Turkish listed firms, in cases where IFRSs allow a choice between alternative accounting policies.

The paper is based on a survey of 235 annual reports of non-financial Turkish listed companies which are presenting their financial statements in accordance with IFRS. Although many studies on the effect of IFRS implementation on financial statements were conducted in Turkey empirical evidence on the choices of accounting policies is limited. This research contributes to the literature in a number of ways. First empirical results provided on chosen accounting policies in Turkey will benefit users of financial statements in identifying the effect of chosen accounting policies when evaluating financial information. Second, the research can also help standard setters by providing information on the actual application of various accounting policy choices.

The rest of the paper is organized as follows. Section 2 explains brief history of Turkish accounting framework and compares accounting policies of Turkish GAAP to those of IFRS. Section 3 discusses prior literature on the effect of chosen accounting policies on financial information. Section 4 describes the sample selection, data and research design. Section 5 summarizes results.

1. TURKISH GAAP AND ACCOUNTING POLICIES

Accounting rules and principles in Turkey were standardized in 1992 with the issuance of an accounting regulation by Ministry of Finance. Named as “The Uniform Accounting System”, this accounting regulation under which all companies prepare and present their financial statements is accepted as Turkish GAAP.

The need of Turkish companies to attract foreign investments and the application of Turkey for full European membership, however, results in adoption and implementation of IFRS. Turkish Accounting Standards Board translated all IFRSs into Turkish and accepted them as TAS/TFRS (Turkish Accounting Standards/Turkish Financial Reporting Standard). Turkish Capital Markets Board has issued a communiqué requiring all listed companies to prepare and present their financial statements in accordance with IFRS from 1 January 2005. Moreover, New Turkish Commercial Legislation which will be effective from 1 January 2013 mandates all companies, whether listed or non-listed, to prepare and present their financial statements in accordance with TFRS. As a result of this regulation, TFRS will supersede the Uniform Accounting System and full transition to IFRS will be achieved.

Turkish GAAP which is typically characterized as stakeholder-oriented and tax-driven accounting system differs substantially from IFRS, which is shareholder-oriented and independent of tax reporting considerations. The different objectives of these alternative accounting systems have several important implications for the accounting policies allowed under each system. For example, fair value accounting is not permitted under Turkish GAAP while IFRS adopts “true and fair” presentation of financial statements.

Accounting policies in IFRS and Turkish GAAP are compared in Table 1. As seen in the table 1, since it is a stakeholder-oriented and tax-driven accounting system, Turkish GAAP requires mandatory accounting policies to transactions, events and other conditions, rather than selective accounting policies. In case where Turkish GAAP does not specifically address a transaction, management should refer to the requirements in other accounting regimes. For example, since Turkish GAAP does not specify any accounting treatment for exploration and development costs of upstream activities, oil and gas companies are allowed to apply full cost method or successful efforts method of U.S. GAAP.

Table 1. Comparison of IFRS to Turkish GAAP

Category	Accounting policy under IFRS	Accounting policy under Turkish GAAP
Method of presenting comprehensive income	Two options are available. Comprehensive income may be presented in accordance with one statement approach or two statement approach	No specific requirements exist.
Method of classification of expenses	Two options are available. Expenses may be classified according to their functions or nature.	Expenses are classified according to their functions.
Method of measuring cost of inventories	The use of the standard cost and retail methods for the measurement of cost of inventories is allowed if the results approximate actual cost.	Cost of inventories can be determined by using either actual cost or standart cost methods.
Cost formulas for the cost of inventories	The specific identification method is required for the cost of inventories of items that are not ordinarily interchangeable. For inventories that are ordinarily interchangeable, FIFO and weighted average cost cormula is allowed.	The specific identification method is required for the cost of inventories of items that are not ordinarily interchangeable. For inventories that are ordinarily interchangeable, FIFO and weighted average cost cormula is allowed. The use of LIFO is not allowed.
Method of presenting the statement of cash flows	Two options are available. Cash flows from operating activities can be reported using either direct method or indirect method.	Cash flows from operating activities shall be reported using direct method. The use of indirect method is not allowed.
Measurement model for property, plant and equipment	Two options are available. Property, plant and equipment can be measured using either cost model or revaluation model.	Property, plant and equipment shall be measured using cost model. In the cost model adopted by Turkish GAAP, impairment losses of property, plant and equipment are not accounted.

Category	Accounting policy under IFRS	Accounting policy under Turkish GAAP
Depreciation method of tangible assets	The use of straight-line, diminishing balance, and units of production methods is permitted.	The use of straight-line and diminishing balance method is permitted. The use of units of production method is not allowed.
Measurement model for intangible assets	Two options are available. Intangible assets can be measured using either cost model or revaluation model.	Intangible assets shall be measured using cost model. In the cost model adopted by Turkish GAAP, impairment losses of intangible assets are not accounted.
Measurement model for investment property	Two options are available. Investment property can be measured using either cost model or fair value model.	Investment property shall be measured using cost model. In the cost model of Turkish GAAP, impairment losses of investment property are not accounted.

2. LITERATURE REVIEW

The purpose of IFRS is to narrow these differences by seeking to harmonise regulations, accounting standards and procedures relating to the preparation and presentation of financial statements. The need for harmonization stems from the differences that exist between accounting policies, and so the literature is concentrated on finding whether transition to IFRS will standardize accounting policies chosen by companies. Kvaal and Nobes (2010) examine international differences under IFRS by using information from annual reports of companies from countries that have the largest five stock markets (UK, Germany, Australia, France and Spain). They investigate whether pre-IFRS national practice continues after the adoption of IFRS. Their results present strong evidence that the choices among IFRS policy options can largely be explained by the continuation of a company's pre-IFRS policies. For instance, Spanish companies which were classifying expenses in income statement by their nature before the adoption of IFRS, continue using by-nature format of the income statement after the adoption of IFRS. Furthermore, UK and Australian companies mostly use revaluation model for the measurement of property, plant and equipment which was also allowed by national GAAP. Hence, they conclude that national patterns of accounting within IFRS still exist and full international comparability has not yet arrived (Kvaal & Nobes, 2010: 173).

In other study, Kvaal and Nobes (2012) examine accounting policy choices made in 2008/9 IFRS financial statements by a sample of listed firms and compare these choices with those that had been made by the same companies in the year of transition to IFRS. They find that despite the constraints on policy change within IFRS, some companies made more changes after transition than deviations from national GAAP on transition to IFRS. This finding shows that comparability of financial statements across entities and through time remains in doubt.

The economic consequences of transition from a national GAAP to IFRS is another research area. Since IFRS requires the application of consistent accounting policies among companies and improves quality of financial reporting, it is argued that transition to IFRS would result in reduced information asymmetry and lower cost of capital. Armstrong *et al.* (2010) examines European stock market reactions to the transition IFRS in Europe. They find positive reaction for firms with lower quality pre-adoption information and with higher pre-adoption information. Barth *et al.* (2008) examine whether application of IFRS is associated with higher accounting quality by using a sample of companies from 21 countries. Their results show that transition to IFRS improves the quality of accounting information by decreasing earnings management. In addition, Barth *et al.* (2009) provide evidence that cost of capital of companies decrease with the transition to IFRS. Like Barth *et al.* (2008), Jeanjean and Stolowly (2008) focus on the impact of transition to IFRS on earnings management. However, evidence produced by the research of Jeanjean and Stolowly (2008) is somewhat different. Using a sample of companies from three IFRS first-time adopter countries, namely Australia, France and the UK, they find no evidence on decline of earnings management after the transition to IFRS.

A number of studies look more closely at IFRS practice in under one particular standard. Cash flow reporting under IAS 7 is examined by Mechelli (2009) who look at 2005 financial statements of largest listed Italian companies. He finds a high degree of heterogeneity in IFRS and a high degree of noncompliance with IAS 7 by Italian groups. This result implies that accounting policies related to the presentation of the statement of cash flows are not consistent among companies and that some disclosure issues are neglected. Kvaal and Nobes (2012) records an accounting policy change related to the presentation of other comprehensive income in the sample analyzed. They find a major shift by continental European companies towards presenting other comprehensive income in a separate statement.

Morais (2008) examines financial statements of 523 European companies in order to identify the accounting method of actuarial gains and losses followed by companies after the mandatory adoption of IFRS. His findings indicate that most of European companies included in the sample adopted the corridor method or the equity recognition method rather than the profit or loss method. Moreover, the equity recognition method is more used in the United Kingdom (UK) and Ireland and the corridor method is more used by financial companies. Similar results are

obtained by Fasshauer *et al.* (2008). Fasshauer *et al.* (2008) examine the accounting treatment of actuarial gains and losses by using a sample of IFRS based financial statements of listed companies in Ireland and UK. Their results show that most of the companies in the sample choose the corridor method or the equity recognition method. The empirical evidence of these studies support the idea that there are systematic differences between countries and sectors with respect to the accounting policies that companies use within IFRS (Kvaal & Nobes, 2010: 173).

3. RESEARCH METHODOLOGY

To gather data on which accounting policies are actually applied by Turkish listed companies, a list of listed companies was requested from the Istanbul Stock Exchange (ISE) through its website. The list contained a total of 367 companies of which 132 was financial companies. After eliminating financial companies it was found that there were 235 listed non-financial companies on the ISE on 31 December 2011. The final sample, thus, consists of 235 listed non-financial companies. The data for identifying accounting policies chosen by Turkish companies were manually collected from the sample companies' annual reports of the year 2011 that were downloaded from the official website of the Istanbul Stock Exchange. The sample companies were spread over 11 sectors. Details of the various sectors, the number of companies per sector and the percentage of the total sample are as follows:

Table 2. Descriptive statistics of sample of Turkish listed companies

Sector description	N	% of total
Agriculture, forestry and fishing	1	0.43 %
Mining	5	2.13 %
Manufacturing industry	165	70.21 %
Electricity, gas and water	5	2.13 %
Construction and public works	4	1.70 %
Wholesale and retail trade, hotels and restaurants	24	10.21 %
Transportation, telecommunication and storage	8	3.40 %
Education, health, sports and other social services	6	2.55 %
Technology	15	6.38 %
Professional, scientific and technical activities	1	0.43 %
Real estate activities	1	0.43 %
Total	235	100 %

The analysis was focused on the following areas: (1) Application of International Accounting Standard (IAS) 1-Presentation of Financial Statements in the areas of the methods of presenting comprehensive income and classification of expenses in the statement of comprehensive income; (2) Application of IAS 2-Inventories in

the areas of the methods of measuring cost of inventories and cost formulas for the cost of inventories; (3) Application of IAS 7-Statement of Cash Flows in the area of method of presenting cash flows from operating activities; (4) Application of IAS 16-Property, Plant and Equipment in the areas of measurement model and depreciation method selection; (5) Application of IAS 38-Intangible Assets in the area of measurement model selection and (6) Application of IAS 40-Investment Property in the area of measurement model selection.

4. EMPIRICAL RESULTS OF THE ACCOUNTING POLICIES APPLIED BY TURKISH LISTED COMPANIES

The results of the accounting policies choices made by Turkish listed companies are presented in table 3. In the descriptions that follow the table, the alternatives are stated and the results briefly interpreted.

Table 3. Empirical results of accounting policies chosen by sample companies

	IFRS Standard and detail of accounting policy choice	N	%
1	IAS 1: Chosen method of presenting comprehensive income (n=235) (see 5.1):		
	Presenting comprehensive income according to single-statement approach	225	95%
	Presenting comprehensive income according to two-statement approach	10	5%
	Total	235	100%
2	IAS 1: Chosen method of classification of expenses in statement of comprehensive income (n=235) (see 5.2):		
	Classification of expenses according to their function		
	Classification of expenses according to their nature	235	100%
	Total	0	0%
3	IAS 2: Chosen method for measuring cost of inventories (n=215) (see 5.3):		
	Standard costing	3	1%
	Retail method	0	0%
	Actual costing	212	99%
	Total	215	100%
4	IAS 2: Chosen cost formulas for the cost of inventories (n=215) (see 5.3):		
	FIFO	16	8%
	Average method	194	90%
	Companies with inventories, but not stating policy	5	2%
	Total	215	100%

5	IAS 7: Chosen method of presenting the statement of cash flows (n=235) (see 5.4): Direct method Indirect method Total		
		0	0%
		235	100%
		235	100%
6	IAS 16: Chosen measurement model for land (n=198) (see 5.5): Cost model Revaluation model Total		
		158	80%
		40	20%
		198	100%
7	IAS 16: Chosen measurement model for building (n=200) (see 5.5): Cost model Revaluation model Total		
		155	78%
		45	22%
		200	100%
8	IAS 16: Chosen measurement model for equipment (n=203) (see 5.5): Cost model Revaluation model Total		
		197	97%
		6	3%
		203	100%
9	IAS 16: Chosen depreciation method for tangible assets (n=200) (see 5.6): Straight line Declining balance Units of production Total		
		196	98%
		2	1%
		2	1%
		200	100%
10	IAS 38: Chosen measurement model for intangible assets (n=177) (see 5.7): Cost model Revaluation model Total		
		177	100%
		0	0%
		177	100%
11	IAS 40: Chosen measurement model for investment property (n=73) (see 5.8): Cost model Fair value model Total		
		46	63%
		27	37%
		73	100%

4.1. Method of presenting comprehensive income (IAS 1)

Comprehensive income contains net income and also fair value adjustments resulted from fair value measurements of certain assets and liabilities (other comprehensive income items). Based on the claim that comprehensive income provides more relevant accounting information on financial performance than net income does (see Robinson, 1991; Smith & Reither, 1996; Plenborg, 1996; Keating, 1999; Maines & McDaniel, 2000) IAS 1 requires that companies report comprehensive income in a primary financial statement. The standard allows companies two options in reporting comprehensive income. Companies may present all items of income and expense in a single statement (a statement of comprehensive income) or in two statements (a separate income statement and statement of comprehensive income). When “single statement approach” is adopted, companies combine current content of income statement with other comprehensive income items. Under “two-statement approach”, companies present a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income) (IAS 1, paragraph 81).

From the empirical results in table 3 it is clear that the “single statement approach” is by far the preferred method of presenting comprehensive income by Turkish listed companies.

4.2. Method of classification of expenses in statement of comprehensive income (IAS 1)

Under IFRS, expenses recognised in profit or loss can be presented either by nature or by function. In the first method, expenditures are grouped in the income statement in accordance with their nature (such as depreciation, purchases of materials, transportation costs, salaries to employees and advertising costs) and not be redistributed according to the different functions that are developed within the company (IAS 1, paragraph 91). The second method (cost of sales method) which is also mandated by Turkish GAAP consists of classifying expenses in accordance with its role as part of the cost of sales or, for example, charges of distribution activities or administration. IAS 1 advises the use of cost of sales method since this type of filing can provide users with more relevant than that offered by submitting expenses by nature (IAS 1, paragraph 92).

From the table 3, it is evident that Turkish listed companies continue to classify their expenses according to their function after the adoption of IFRS. This result supports the findings of Kvaal and Nobes (2010) which provide evidence that the choices among IFRS policy options can largely be explained by the continuation of a company’s pre-IFRS policies.

4.3. Accounting policies related to measurement of cost of inventories (IAS 2)

IAS 2 allows the use of the standard cost and retail methods for the measurement of cost, provided that the results approximate actual cost (IAS 2, paragraph 21). In standard costing system, standard costs are compared with actual costs incurred to determine variances that are useful for exercising managerial control (Manjunath, 2011: 48). It is believed that standard costing will be applied more widely in the manufacturing sector compared to the retail sector.

The results in Table 3 show that only 3 companies use the standard cost for the measurement of cost of inventories. The rest of the sample (99%) which are carrying inventory applied actual costing for the measurement of cost of inventories.

In measuring the cost of inventories, entities are also faced with selecting another accounting policy choice between the first-in, first-out (FIFO) method or the average method as cost formulas. IAS 2 mandates that the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects be assigned by using specific identification of their individual costs (IAS 2, paragraph 23). However, for inventories that are ordinarily interchangeable, the cost can be assigned using either first-in, first-out (FIFO) or weighted average cost formula (IAS 2, paragraph 25).

From the 215 companies that were found to hold inventories, 5 companies (2%) disclosed no information on their accounting policy related to cost formulas for the cost of inventories. The cost formulas chosen by the remaining 210 companies are presented in table 3. It is clear that 90% of the companies in the sample apply average method and 8% of the companies apply FIFO method.

4.4. Method of presenting the statement of cash flows (IAS 7)

In recent years the use of cash flow statements has increased rapidly. Some authors believe its figures are more useful for decision makers than figures shown in other statements (Mills & Yamamura, 1998: 53; Steyn & Hamman, 2003: 182). Believing that it provides users of financial statements the basis for assessing the ability of the company to generate cash and cash equivalents, IAS 7 mandates companies to present the statement of cash flows within a complete set of financial statements.

Under IAS 7, companies report cash flows by classifying them as cash flows from operating, investing and financing activities. Companies can report the cash flows from operating activities using either direct method or indirect method. Direct method requires presenting separately main categories of gross receipts and payments. Under indirect method, the gain or loss in net terms is corrected by the

effects of non-cash transactions, for all sorts of items deferred payments and charges that are the cause of charges and payments in the past or in the future, as well as items of gains or losses associated with cash flows of activities classified as investment or financing (IAS 7, paragraph 18). IAS 7 advises the direct method since it is believed that information provided by this method is useful in estimating future cash flows, which is not available using the indirect method. Furthermore, supporters of the direct method argue that it improves cash flow comparisons across firms and between actual cash flows and facilitates sensitivity analysis of cash flows to volume changes. However, the indirect method is also permitted by IASB because reporting operating cash flows by the direct method is believed to cause costs that outweigh the benefits of the information to external users (Mechelli, 2009: 239).

Due to IASB's clear preference for and encouragement to use the direct method, it is shown in table 3 that all of the companies in the sample reported their cash flows from operating activities using indirect method.

4.5. Measurement model for property plant and equipment (IAS 16)

IAS 16 comprises the possibility of policy selection in the area of measurement of property, plant and equipment. A company can apply either the cost model or the revaluation model to the subsequent measurement of property, plant and equipment. Companies using cost model measure their property plant and equipment at cost less any accumulated depreciation and any accumulated impairment losses. As stated in the table 2, Turkish GAAP requires that property, plant and equipment be measured using cost model. The use of revaluation model is no permitted under Turkish GAAP.

Since cost model does not recognise any increase in asset values even when the current values of assets have increased, asset values could be underestimated and net profit could be overestimated due to recognition of less depreciation (Cheng *et al.*, 2009: 167). Using the revaluation model, property, plant and equipment are measured at fair value as of the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair-value of an asset from time to time is usually determined from market based information by professional appraisal. Revaluation model mitigate part of the fundamental problem in historical cost accounting and provides users with more useful and relevant information. However, companies see it as a complex measurement model (Krupová & Roubíčková, 2011: 352).

The results of research show that Turkish listed companies mainly revalued land and buildings, although not to a large extent. Furthermore, companies that used the revaluation model had never applied it for all property, plant and equipment. They used the possibility mentioned in IAS16-Property, plant and equipment, which

allows assets revaluation within the corresponding classes of assets. From the 235 companies in the sample, 37 companies (15%) disclosed no information of any item of land, 35 (14%) made no disclosures of any items of buildings and 32 (13%) made no disclosures of any items of equipment. The empirical results of the remaining sample companies' measurement model for land, buildings and equipment are presented in table 3. It is clear that 20% of the companies in the sample have revalued their land, 22% of the companies in the sample have revalued their buildings and 3% of the companies have revalued their equipments.

4.6. Depreciation method of tangible assets (IAS 16)

IAS 16 allows the use of various depreciation methods to distribute depreciable amount of a tangible asset in a systematic manner throughout its useful life. The entity should apply the method that more accurately reflects the expected pattern of consumption in the future economic benefits embodied in the asset (IAS 16, paragraph 60). Beyond that, the standard leaves the choice of method to the company, even though it does cite '*straight-line*', '*diminishing balance*', and '*unit of production*' methods (IAS 16, paragraph 62). Straight-line depreciation provides for a depreciation rate that is the same amount in every year of an asset's life, whereas diminishing balance depreciation methods are oriented toward the more rapid recognition of depreciation expenses, on the grounds that an asset is used most intensively when it is first acquired. In units of production method, depreciation is charged according to the actual usage of the asset. As a result, higher depreciation is charged when there is higher activity and less is charged when there is low level of operation.

From Table 3, it is clear, that the majority of companies use the straight-line method. Among the companies that do not use the straight-line method (four companies only within our sample), two use diminishing balance method and two companies use the unit of production method.

4.7. Measurement model for intangible assets (IAS 38)

Measurement of intangible assets may be determined by one of two methods; the cost model or the revaluation model. The carrying value for the cost model is the initial cost less accumulated depreciation less any accumulated impairment losses (IAS 38, paragraph 74). For the revaluation model the intangible asset is carried at a revalued amount less any accumulated depreciation less any accumulated impairment losses. Revaluation model can be used only if fair value can be determined by reference to an active market (IAS 38, paragraph 75).

Evidently, the revaluation model for intangible assets is not used in practice. Within our sample this model was not found in any case. Among 235 companies, 58 companies reported no intangible assets; all other companies measured the

intangible assets by using the cost model. Nonexistence of an active market for most intangibles and complexity of the revaluation model may restrict the use of the revaluation model (Krupová & Roubíčková, 2011: 354).

4.8. Measurement model for investment property (IAS 40)

Companies choose as its accounting policy either the fair value model or the cost model for investment property. If the cost model is applied, investment property is measured at cost less any accumulated depreciation and any accumulated impairment losses. In the fair value model, the investment property is measured at fair value at each reporting date (IAS 40, paragraph 33). A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises (IAS 40, paragraph 35).

In our sample, 73 companies reported investment property and 162 companies did not. It is evident from the results that the fair value model was used approximately by a third of companies recognizing the investment property (27 companies). This implies that the fair value model is more commonly used for measurement of investment property compared to tangible assets and intangible assets.

CONCLUSIONS

The intention of IASB is to improve comparability of financial statements across companies by restricting the application of different accounting treatments to similar transactions and events. However, most IFRSs permit companies to make choices among different accounting policies.

In this research we examined IFRS-based financial reports of 235 Turkish listed companies with reference to 11 accounting policy choices they made relating to options permitted by IFRSs. The various individual choices made by the sample companies for the identified accounting policy alternatives were highlighted in table 3. We found a significant degree of heterogeneity among the behaviors of Turkish listed companies with regard to choices concerning measurement model for property, plant and equipment and measurement model for investment property. This finding implies that the comparability of financial information between companies is impaired when IFRSs permit different accounting policies. It can also derived from the results that accounting policy choices of Turkish listed companies in some cases are dominated by pre-IFRS national practice (Turkish GAAP) where this is allowed within IFRS. Furthermore, we found some evidence that there may be a lack of proper disclosure of specific accounting policy choices.

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