Exploratory Evidence for the Adoption of the Ias 7 in Turkey

Pekdemir, Recep and Kepce Yonet, Nazli

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EXPLORATORY EVIDENCE FOR THE ADOPTION OF THE IAS 7 IN TURKEY

Recep PEKDEMİR* - Nazlı KEPÇE YÖNET

Abstract:
This paper examines the adoption of the International Accounting Standard No 7 (IAS 7) “Cash Flow Statements (CFS)” of the International Accounting Standards Board (IASB) by the listed companies in the Istanbul Stock Exchange (ISE) in Turkey. The purpose of this study is to provide brief information about the history and background of the adoption or harmonization of the global financial reporting standards, to explore the degree of homogeneity in choosing among different options permitted by the IAS 7 and the degree of compliance with it. In order to achieve this purpose, an exploratory study was developed and conducted by analyzing financial statements of 17 non-financial firms of ISE top 30 from the year of 2007 to 2009. The findings of the study have shown a significant heterogeneity and non-compliance in applying the IAS 7 in Turkey. The high degree of heterogeneity may dismiss the comparability of financial statements across entities, requiring further efforts by the IASB to reduce options permitted in its standards. The high degree of non-compliance may create the risk of misleading financial information users who might have expected that the audited financial statements they have been prepared according to the IASB standards.

Keywords: accounting harmonization, adoption, compliance, IAS 7, cash flow statement.

Introduction and Literature Review:
The adoption of IASB standards by many countries (EU Regulation 1606/2002, art I) has aimed to harmonize financial information to enhance the degree of transparency and comparability of financial statements, and hence ensure an efficient functioning of the financial markets. This goal might be impaired by certain factors (Street and Larson, 2004; Callao, Jarne and Lainez, 2007). One can argue that large use of options permitted by the IASB Standards might be good example of those. These options will impair the comparability of companies’ financial statements. Another factor might be noncompliance that would be impairing the comparability (Glaum and Street, 2003; Street and Gray, 2002; Street, Gray and Bryant, 1999), and also misleading financial information users expecting to receive financial information prepared in compliance with the IFRSs.

This study is concentrated on IAS 7 since the use of cash flow statements has increased significantly in Turkey in recent years.

The definition of accounting harmonization raised some problems (Tay and Parker, 1990). Van der Tas defined harmonization as the coordination or two or more objects, and distinguished among:

- material harmonization (which refers to harmonization of financial reports),
- formal harmonization (which refers to harmonization of standards),
- disclosure harmonization (which refers to the harmonization of the extent of disclosure),

- measurement harmonization (which refers to the harmonization of applied accounting methods) (Van der Tas, 1988; 1992).

Tay and Parker faced this issue in defining harmonization as a process that causes a movement away from total diversity of practice and harmony as a state that refers to a clustering of companies around one or a few available methods. They also noted the importance of distinguishing concepts just exposed with respect to concepts of harmonization, that is a process towards uniformity, and just uniformity, that is the absence of differences (Tay and Parket, 1990; 1992)

For the purpose of this paper it is important to note the difference the above cited authors (Tay and Parker, 1990; 1992) made between the jure and de facto states (harmony and uniformity) or process (harmonization and standardization), distinguishing regulation from practice in a way quite similar to that in which Van der Tas had done between formal harmonization and material harmonization. (Van der Tas, 1988)

The need for harmonization is obvious. In this field, there exist papers producing evidence the influence of environmental factors.

The paper is organized as follows, after providing brief information about the history and background of the adoption or harmonization of the global financial reporting standards in Turkey in the first section, the adoption of the International Accounting Standard No 7 (IAS 7) “Cash Flow Statements (CFS) of the International Accounting Standards Board (IASB) by the listed companies in the Istanbul Stock Exchange (ISE) will be examined in the second section through an exploratory study developed. The exploratory study developed and conducted, in order to find out the degree of homogeneity in choosing among different options permitted by the IAS 7 and to analyze the degree of compliance with it. Cash Flow Statements of companies studied examined from the year of 2007 to 2009 in order to figure out whether there is a change in companies’ preferences among the options permitted by IAS 7 and change in the degree of compliance with it while preparing their financial statements.

Developments in Financial Reporting in Turkish Capital Markets

The history and background of the IAS/IFRS in Turkey can be chronologically summarized as follows:

- Under the supervision of the Expert Accountants of Turkey (EAT), one of the founders of IFAC, the International Accounting Standards Developed and published by the IASC were translated and published immediately into the Turkish Language (Durmus, 1991)

- During the development of accounting standards in 1989 for the listed Turkish Companies, the Capital Markets Board of Turkey considered those translated IAS.

- In 2001, IAS 29 and IAS 27-28 were compulsory for the listed companies.
In 2002, following the Basel Committee, the banking Regulation and Supervisory Agency of Turkey developed and published the Communiqués making financial institutions mandatory comply with the IFRSs.

In 2003, a draft for IAS 29 passed the Turkish Parliament, and the law covered all entities operating in Turkey without regarding their sizes or ownership structures because there had been hyper-inflationary environment for the decades.

Again in 2003, a draft for IAS 17 passed at the Turkish Parliament and enacted.

In 2003, The Capital Markets Board of Turkey announced that the listed companies prepare their financial reports in accordance with the accounting and reporting standards adopted from the IFRSs voluntary for 2004, and mandatory for 2005.

In our observation, it was an introduction to adopt all of the IASs/IFRSs. This adoption represented the translations of the IASs/IFRSs as of December 31, 2002. So, one can argue that it is not updated option. In fact it had remained as mandatory enacted till December 31, 2007.

On April 9, 2008, the Capital Markets Board of Turkey published a decree stating all listed companies should comply with all of the IASs/IFRSs where they are compulsory valid in the European Union (EU) since Turkey has been on the way of the full membership of the EU. As a result of this decision, all listed companies should comply with the standards of the IASB as December 31, 2007.

### From Account/Report Format to Activity Format Reporting Cash Flows in Turkey

In Turkey, reporting companies in financial market had met first cash flow statement in 1989. The format of the cash flow statement that had to be prepared by the listed companies was account type. It was such a kind of T account or ledger as following:

<table>
<thead>
<tr>
<th>CASH LEDGER OR CASH ACCOUNT</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance of Cash</td>
<td></td>
</tr>
<tr>
<td>Cash Inflows</td>
<td>Cash Outflows</td>
</tr>
<tr>
<td>Ending Balance of Cash</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOW STATEMENT</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Beginning Balance of Cash</td>
<td></td>
</tr>
<tr>
<td>B. Cash Inflows</td>
<td></td>
</tr>
<tr>
<td>C. Cash Outflows</td>
<td></td>
</tr>
<tr>
<td>D. Ending Balance of Cash</td>
<td></td>
</tr>
<tr>
<td>E. Increasing/Decreasing in Cash Balance</td>
<td></td>
</tr>
</tbody>
</table>
This type of submission was existed until the end of 2003. When the Capital Markets Board of Turkey announced that the listed companies prepare their financial reports in accordance with the accounting and reporting standards adapted from the IFRSs voluntary for 2004 and mandatory for 2005, the listed companies had met the activity based format provided in the IAS 7 as following:

**CASH FLOW STATEMENT**

| A. Net Cash Flows from Operating Activities |
| B. Net Cash Flows from Investing Activities |
| C. Net Cash Flows from Financing Activities |
| Net Cash Flows for the Period Given          |
| Beginning Balance of Cash                   |
| Ending Balance of Cash                      |

Cash flow management is crucial for not only business management but also external financial information users. Cash is similar to bullet. Just an assumption there is an army having a lot of heavy machinery assets, but no bullet. In the case of a war, there is no doubt this army will do nothing. It is the same as entities. Bad cash flow management can cause the end of the business. It is stated in the IAS 7 Paragraph 4 as following:

*Users of an entity’s financial statements are interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity’s activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a financial institution. Entities need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns on their investors.*

In the IAS 7 paragraph 11, it is stated:

*An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.*

This aimed to increase the usefulness of the cash flow information. However, it creates certain problems that might be impairing comparability of companies’ financial statements that regard; an exploratory study was developed and realized in the ISE of Turkey.

**The Exploratory Study for the Listed Companies in Turkey**

**The Purpose**

The purpose of the study was aimed to realize how the companies listed in the Istanbul Stock Exchange (ISE) adopted the IAS 7 Cash Flow Statements and whether the companies listed have entirely complied with the benchmarks and/or recommendations given in the IAS 7. For this purpose, certain questions were raised from the statements given in the IAS 7 related to
the classification and submission of the items about financial matters such as interest paid, interest and dividends received, dividends paid, income tax paid. In addition to those questions, it is also tested whether the reporting companies have been following the direct method recommended for the measurement and reporting of operating companies or not. We explored the cash flow statements of chosen listed companies for three years from the year of 2007 to 2009 to find out whether there is a change in the degree of homogeneity choosing among options permitted by IAS 7 on the related topics.

The Research Questions

In the IAS 7, it is stated that “companies are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method (Article 29)”. From that point of view, the question can be raised:

Q.1: Have all companies listed in the Istanbul Stock Exchange (ISE) used the “direct method” for reporting of their “cash flows from operating activities”?

In the IAS 7, it is also stated that “when cash repayment of loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as financing activity (Article 12)”. One can argue that there is an option for the reporting companies that it can undermine comparability of the companies reporting. From that point of view, the question can be raised:

Q.2: Is it possible to compare of the item as “interest paid” in the cash flow statements of the companies listed in the ISE?

In the IAS 7 the paragraphs below are debatable:

31. Cash flow from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as operating, investing and financial activities.

33. Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other companies. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

From those statements above, the questions below can be arisen:

Q.3: Have all companies listed in the ISE classified “interest paid” and “interest and dividends received” as “cash flows from financing and investing activities” respectively?

Q.4: Have all companies listed in the ISE classified “dividends paid” as “cash flows from financing activities”?
Q.5: Have all companies listed in the ISE classified “taxes” as “cash flows from operating activities”? 

The Data Gathered 

First of all, the top 30 companies of the ISE were identified. Second the financial ones of those were omitted since their cash flow statements have significant differentiations in classification and presentation of cash flow items. As a result of the approach utilized only 17 reporting companies were chosen.

In order to determine the degree of homogeneity in choosing among different options permitted by the IAS 7 in the light of the questions raised and the degree of compliance with it financial statements prepared in Turkey, financial statements of 17 companies chosen were examined. (See Appendix A). To find out whether there was any change in the reporting preferences of the cash flow items as from year to year, the financial statements of the chosen reporting companies were examined from the year of 2007 to 2009.

The Research Findings 

This study even being at the preliminary level has shown interesting findings. The findings were summarized according to the questions raised for the purpose of the study.

Q.1: Have all companies listed in the Istanbul Stock Exchange (ISE) used the “direct method” for reporting of their “cash flows from operating activities”? 

The answer is definitely NOT.

Even recommended in the IAS 7, only one of the reporting companies has used the “direct method” for the reporting of the “cash flows from operating activities” and for three years none of the other companies studied changed their method from “indirect” to “direct”. This comes from the preparers’ perspectives.

<table>
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<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>Direct Method</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Indirect Method</td>
<td>16</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

In addition, some authors advocating the direct method argue that it is simpler for laymen to understand (O’Leary, 1988), it improves cash flow comparisons across firms (Richardson, 1991) and between actual cash flows and budgets (Trout, Tanner and Nicholas, 1993), facilitates sensitivity analysis of cash flows to volume changes (Cornell and Apostolou, 1992), avoids the misconception of the indirect method that recognizes items such as depreciation funds (Grudnitski and Harrison, 1997; Heat, 1978; Moonitz, 1956; Roberts and Gabhart, 1972), permits showing the most significant sources of funds-revenues-and the application of funds (Roberts and Gabhart, 1972).

The preparers might have thought that financial information users might prefer to understand the relationship between the net income, the EBITDA, and the net cash flows from operation activities. In addition the indirect method is permitted because standard setter believe that
reporting operating cash flows by the direct method may cause costs that outweigh the benefits of the information to external users (Stowy and Walser-Prochazka, 1992).

Despite the encouragement of the IAS 7 and the other global standards and the argument proposed by the authors above, the indirect method is the one companies mostly use to report cash flows from operating activities in countries which permit it (Wallace, Choudhury and Pendlebury, 1997). Also empirical surveys support the popularity of the indirect method. In the United Kingdom for example only two of 200 analyzed firms adopted the direct method (Wallace, Choudhury and Adhikari, 1999) and in the USA, only 259 of 6,000 analyzed companies used the direct method between 1987 and 1989 (Rue and Kirk, 1996). Other research found that the direct method was used in only about 2.56% in 1995 (Krishnan and Largay, III, 2000).

Therefore the finding for this question is not surprising.

Q.2: Is it possible to compare of the item as “interest paid” in the cash flow statements of the companies listed in the ISE?

Comparability is a crucial issue for financial reporting. Accounts for a single reporting company or a corporation should be comparable from time or period to period. It is also crucial for the reporting companies operating in the same field or sector. For that purpose, uniformity or benchmark will be complied with by all. Otherwise it will be difficult to make a comparison.

The study shows that for three years in three of the chosen listed companies’ cash flow statements it is impossible to determine “interest paid” as a separate item. In the remaining fourteen listed companies, one of them did not report “interest paid” for only in the first year of the study (2007), three of them did not report “interest paid” separately for the first two years of the study (2007 and 2008). So the comparability of “interest paid” in the cash flow statements of the listed companies chosen can be realized just for the year of 2009. The number of companies that report “interest paid” separately increased from 2007 to 2009. It can be concluded that there is a tendency to report “interest paid” in cash flow statements.

<table>
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<tr>
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<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported Interest Paid Separately</td>
<td>10</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>Did Not Reported Interest Paid Separately</td>
<td>7</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

Q.3: Have all companies listed in the ISE classified “interest paid” and “interest and dividends received” as “cash flows from financing and investing activities” respectively?

One can argue that there exist a certain items such as “interest paid and interest and dividends received” in the IAS 7. From that point of view, as cash flows from investing and financing activities, were examined whether the items sought were included.

The classification of “interest paid” in the cash flow statement is directly related with whether it can be determined as a separate item in the cash flow statement. In conformity with the answer of the second question above, for three years, in three of the chosen listed
companies’ cash flow statements, it is impossible to determine “interest paid” as a separate item so it is also impossible to determine the classification. Six of the remaining fourteen listed companies studied, classified “interest paid” as “cash flows from financing activities” and three of them as “cash flows from operating activities”. For the remaining five companies for one of them it is impossible to determine “interest paid” as a separate item for 2007 but for 2008 and 2009 it classified “interest paid” as “cash flows from financing activities”. For three of them it is impossible to determine “interest paid” as a separate item for 2007 and 2008, but for 2009 it was classified as “cash flows from operating activities”. The remaining one company classified “interest paid” as “cash flows from operating activities” for 2007 and for 2008 and 2009 as “cash flows from financing activities”. It can be concluded that there is a tendency among companies to classify “interest paid” as “cash flows from financing operations”.

<table>
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<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Reported</td>
<td>7</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Cash Flow From Operating Activities</td>
<td>4</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Cash Flows From Investing Activities</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash Flows From Financing Activities</td>
<td>6</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

Three of the seventeen listed companies studied did not report “interest received” in their cash flow statements for three years. Three of the remaining fourteen companies classified it as “cash flows from financing activities”, five of them classified it as “cash flows from investing activities” and two of them classified it as “cash flows from operating activities”. For the remaining five companies one of them did not report “interest received” in 2007 and two of them in 2007 and 2008. But these companies classified “interest received” as “cash flows from investing activities” for the following years. For the last two companies left, although one of them classified “interest received” as “cash flows from investing activities” and the other one as “cash flows from operating activities”, they classified it as “cash flows from financing activities” for the following years. It can be concluded that there is a tendency among companies to classify “interest received” as “cash flows from investing activities”.

<table>
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<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Reported</td>
<td>5</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Cash Flow From Operating Activities</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Cash Flows From Investing Activities</td>
<td>6</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Cash Flows From Financing Activities</td>
<td>3</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

Nine of the seventeen listed companies studied did not report “dividends received” in their cash flow statements for three years. Two of the remaining nine companies classified as “cash flows from investing activities” and the other two as “cash flows from investing activities”. For the five of the companies remained one of them classified “dividends received” as “cash flows from operating activities” in 2007 and in 2008 and 2009 classified as “cash flows from financing activities”. One or the companies did not report “dividends received” in 2007 but classified it as “cash flows from investing activities” in the following years. One of the companies classified it as “cash flows from investing activities” for 2007 and 2008 but did not report “dividends received” in 2009. The last company did not report dividends received in 2007 and 2008 but classified it within two groups “as cash flows from operating activities”.
and “cash flows from investing activities”. It can be concluded that there is tendency among companies to classify “dividends received” as “cash flows from investing activities”.

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Reported</td>
<td>11</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Cash Flow From Operating Activities</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Cash Flows From Investing Activities</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Cash Flows From Financing Activities</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

To summarize all we can say that there is homogeneity in the classification of interest paid but we cannot say the same thing for the classification of “interest and dividends received” there is still heterogeneity.

**Q.4:** Have all companies listed in the ISE classified “dividends paid” as “cash flows from financing activities”?

Reporting dividends paid is also issue to report on the cash flow statements. Some argue that it should be reported as an item of the operating activities. The IAS 7 has options, too. The study shows that, from seventeen listed companies chosen for this study four of them did not distribute any dividends for three years and two of them did not for just the year of 2009. The remaining eleven companies distributed dividends and reported this as a part of cash flows from financing activities. The study shows that most companies have been reporting “dividends” paid as an item of the financing activities.

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Reported</td>
<td>11</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Classified as Cash Flows From Financing Activities</td>
<td>6</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Did not Classify as Cash Flows From Financing Activities</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

**Q.5:** Have all companies listed in the ISE classified “taxes” as “cash flows from operating activities”?

For three years studied, we determined that all of the seventeen listed companies chosen for this study, classified “taxes paid” as cash flows from operating activities, if they made any payment for taxes. It can be said that unlike the others there is a full homogeneity for this subject.

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Reported</td>
<td>-</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Classified as Cash Flows From Operating Activities</td>
<td>17</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>Did Not Classify as Cash Flows From Operating Activities</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

1 For 2009 one of the companies classified “dividends received” within two categories as “cash flows from operating activities” and “cash flows from investing activities”.
Some authors who have dealt with this subject have been generally against classifying interest as operating cash flows (Nurnberg, 1993; Nurnberg and Largay III, 1998; Stephens and Govindarajan, 1990; Steyn and Hammn, 2003) noticing the opportunity both to treat interest paid as the cost of obtaining finance and so, consistent with dividends paid, to classify them as financing, and to consider interest and dividends received as the results of an investment and so to classify them investing.

Conclusion

In this paper, the adoption of the International Accounting Standard No 7 (IAS 7) “Cash Flow Statements (CFS)” of the International Accounting Standards Board (IASB) by the listed companies in the Istanbul Stock Exchange (ISE) in Turkey were examined. The purpose of this paper was to provide brief information about the history and background of the adoption on harmonization of the global financial reporting standards and to explore the degree of compliance with it. The information about the history and background of the adoption in Turkey might be satisfactory, but the findings about the degree of homogeneity or compliance might not good enough.

In order to achieve this purpose, an exploratory study was developed and conducted by analyzing 17 nonfinancial companies of ISE top 30 from the year of 2007 to 2009. It can be argued that the number of the reporting companies would be inadequate. In addition the date gathered and tested would not be sufficient. Both of those should be extended to satisfactory achieve the purpose mentioned.

As a result of the study first of all we found the following:

One of the most important findings of the study is that companies do not feel obligated to consider IASB’s recommendations. Despite the recommendation on using direct method in the preparation of cash flows from operating activities except one company all of them used indirect method and there was no change in the companies’ preferences for the years examined.

From the year of 2007 to 2009 we found that there is an increase in number of companies that report “interest paid” separately in their cash flow statements and they either prefer to report it in “cash flows from operating activities” or “cash flows from financing activities”.

From the year of 2007 to 2009 there is heterogeneity in the classification of “interest and dividends received”. However, within this heterogeneity it can be concluded that companies have tendency to classify them in “cash flows from investing activities”.

From the year of 2007 to 2009 what is surprising is that there is a full homogeneity in the classification of “dividends” and “income taxes paid”. All of the listed companies studied, classified “dividends paid” as “cash flows from financing activities” and “income tax paid” as “cash flows from operating activities”.

The findings of the study are surprising since they similar ones existing in other countries. The findings of the study even at the preliminary level of the study have shown a significant heterogeneity or noncompliance in applying the IAS 7 in Turkey.

The high degree of heterogeneity might certainly distort the comparability of financial statements across entities.
This study has just got started to deal with the high degree of heterogeneity that may certainly distort the comparability of financial statements across entities. Further efforts from the IASB in order to reduce options permitted in its standards might be needed. In addition to that the high degree of non-compliance may create the risk of misleading financial information users who might have expected that the audited financial statements they have been prepared according to the IASB standards. Further efforts from the IASB to reduce options. The high degree of noncompliance may create the risk of misleading financial information users who might have expected that the audited financial statements they have been prepared according to the IASB standards. Therefore the scope of the study should be extended.

References:


Appendix A:

1- Arçelik
2- Doğan Holding
3- Doğan Yayın Holding
4- Eczacıbaşı İlaç Sanayi
5- Enka
6- Erdemir
7- Kademir
8- Koç
9- Petkim
10- Sabancı
11- Sişecam
12- Tav Havalimanları
13- Tekfen
14- Turkcell
15- Tupraş
16- Thy

Vestel