Business & Social Science
IJRBS

Research in Business and Social Science

IJRBS Vol 6 No 1 2017 ISSN: 2147-4478

Contents available at www.ssbfn.net.com/ojs

Doi: 10.20525/ijrbs.v6i1.631

Recognition of the Factoring Contracts within the scope of Turkey Accounting Standards with regard to the Buyer and Seller

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Abstract

In this study giving general information about factoring, which is an alternative financing technique, regarding the recognition of the factoring transactions within the scope of the Turkish Accounting Standards, by presenting a sample application in particular regard of an export transaction in relation to the accounting records which have to be done by the company that gives factoring service and receives the factoring service, a contribution to the accounting literature is put forward. In the study, it is shown that, even though the Uniform Accounting Plan which the factoring companies and the companies which use a factoring service in their accounting records differ from each other, recognition of it within the scope of the Turkish Accounting Standards is a basis. The fundamental principle of the accounting records of the company which assigns the receivables that generate from the exporting by entering into an agreement of factoring is the recognition of the income according to the fair value, by reflecting the amount which the income waits to gain the when assigning, and by separating the income which is actualised and not actualised.

Key words: Factoring, factoring transactions, Turkish Accounting Standards

JEL classification: M40, M41

Introduction

Along with the changing conditions of competition in business life, various financial techniques were also brought to the agenda, and the factoring became one of those tools. Factoring is an alternative financing technique that allows the companies monetise their receivables that exist in their accounting records and which they will collect in the future, instead of using their resources in order to meet their funding needs. The Factoring transactions that monetise the receivables as of today are going to be collected in the future. Since they meet the financing need also in Turkey, having a developing scope of application, although it is not as widespread as elsewhere in the World. An explanation of the working of the factoring transactions which are among the new financing techniques is required.

The factoring companies who operate factoring services benefit from the Turkish Accounting Standards and Turkish Financial Reporting Standards and the Uniform Accounting Plan that is issued by the Banking Regulation and Supervision Agency regarding the recognition of the transactions and the preparation of the financial accounts. As for the companies who received factoring services, they benefit from the Turkish Accounting Standards and Turkish Financial Reporting Standards and the Uniform Accounting Plan that is in the General Communique on Accounting System Application.

The chart of accounts which the factoring companies benefit from changed in 2007. The recognition by considering particularly the Turkish Accounting Standards is taken as the basis. No study has been undertaken in the recognition of the factoring transactions, particularly after the change in the accounts chart, and Turkish Accounting Standards in the accounting records of the factoring companies, into account. Kaya and Gereken (2011), discussed the discount factoring transaction in terms of Turkish Lira in their study named "The Recognition of the Factoring Transactions with regard to Factoring Company and Seller Business". According to the literature search there is no study regarding the recognition of the export factoring transactions. The aim of this study is to contribute to the literature by discussing the recognition of the export factoring transactions. The principles of the recognition of the factoring transactions according to the Turkey Accounting Standards, are comparatively being put forward with regard to the companies who operate factoring services that benefit from different accounts chart and to the companies who receives factoring services. Regarding the factoring contracts, the TMS 18 "Revenue Standard" along with the TFRS 15 "Revenue Standard Which is Born From the Contracts That Are Signed With the Customers" that was issued in Official Gazette on 09 September 2016, are discussed. The TFRS 15 Standard contains the TMS 18 Standard, besides, putting a new face for the subjects such as "Revenues From Services", "Changes in the Contract" that are not mentioned within the "Revenue Standard". In order to undertand the accounting applications in regard to the factoring transactions with regard to the TFRS 15 "Revenue Standard Which is Born From the Contracts", TMS 18 "Revenue Standard", TMS 21 "Standard of Foreign Currency Transactions" and TMS 23 "Borrowing Cost Standard", an explanation was sought by using a model practice.

In this study information is being given about factoring which is an alternative financing resource when meeting the need of the external source that the companies need, and there exist detailed explanations and model practices about the Turkish Accounting Standards regarding the factoring transactions.

Factoring

According to the Turkish Language Association factoring is written as "factoring" and means "crediting". As for "factoring company" that is stated as "factor" is expressed as "a financial institution which takes over the rights of the companies that do forward sales, which arise from the sale of all sorts of sale goods and services (www.tdk.gov.tr, 2016). Factoring transactions exist at the market, within a commercial life, as an alternative financing technique. The companies prefer it as an additional option in comparison with the banks for solving the problems regarding their cash flows.

Factoring means the purchasing of short-term trade receivables that arise from the sale of the companies who operate for the selling of the goods and services within the national and international markets, by the factoring company, providing the collections, actualising the early payment in accordance with the

qualification of the contract, undertaking the risk by the factoring company and keeping the accounts of the invoices (Akgüç, 1998, 552).

Factoring transactions consist of a buyer, a seller and the factoring company. The buyer is the purchasing party who buys the goods or services from the seller, and the seller is the company who sells the goods and services to the buyer who then assigns the collection of the price of the sale. And the factoring company is an institution who collects the receivable of the seller from the buyer by taking it over. Since the seller could collect some of its receivables as a prepayment by assigning its factoring transactions to the factoring company in relation to its receivables, it could have the opportunity to collect its receivables before the due date. Since it has the opportunity to be able to buy the collection amount and the inputs which it has obtained by the prepayment, it could reduce its costs.

There are a lot of benefits of the factoring transactions to the parties involved. The advantages that the factoring transactions provide (www.hsbc.com.tr, 2016):

- a) The sellers can actualise the early payment under favor of prepayment.
- b) The issues relevant to the non-payment risk and the collections belong to the factoring company,
- c) The financial risk is undertaken by the factoring company,
- d) The competitiveness within the market is increased,
- e) The collection and the administration of the receivables by the factoring company is discussed,
- f) The dated invoices could be converted into the cash at will,
- g) It is bringing an order for the cash flow,
- h) Business capital could be created by means of the assignments of the receivables,
- i) It is providing an opportunity for the fast turnaround short-term assets.

The earnings of the factoring company is composed of the commission fee which it receives because of the collection of the receivables and the undertaking of the risk. Besides, the cost is borne for the period between the dates of the prepayment and the collection to be made for the receivables in advance, since it undertakes the down-payment that is made to the customer. The establishment and the working conditions of the factoring companies, is regulated by the Financial Leasing, Factoring and Financing Companies Law numbered 6361 and dated 13/12/2012. Regarding the factoring transaction an important change which is introduced by the Law is overtaken through the central invoice registry system. In addition on 25 July 2013, an requirement was introduced for being a member of the "Financial Leasing, Factoring and Financing Companies Union" after establishing it. (www.fkb.org.tr, 2014). The factoring company generates two sorts of income regarding the factoring service it operates. First, the factoring commission which is received through the completed sales which has a commission cost. Second, the cost of the prepayment which has a ratio of 80% that is made to the customer who has a financing cost.

The factoring commission is accrued through the amount of receivables which is against the guarantee, collection and the administration of the receivables. This commission which is received through the amount of the invoice changes due to the risk, work load, service type, overall volume and the maturity of the sale. The interest is the cost of the financing which reflects the maturity schedule that is for the occupancy through the financing amount used. For the domestic factoring transactions, the Banking and Insurance Transactions Tax is received through the commission and the financing cost. The factoring contracts are exempted from the Transfer Tax and Stamp Duty. As for foreign factoring transactions, they are exempted from all sorts of tax (www.hsbc.com.tr, 2016).

The Recognition of Factoring Transactions According to Turkish Accounting Standards.

The working principals of the factoring companies in Turkey is determined according to the regulations and bulletins which are within the body of the Banking Regulation and Supervision Agency. Although the recognition of the transactions, preparation of the financial accounts and the audit are being done under the framework of the Statutory Decree Law numbered 660 and dated 26/9/2011 concerning the organization and duties of the Public Oversight Accounting and Auditing Standards Authority; the Uniform Accounting Plan is being used that was issued by the Banking Regulation and Supervision Agency (BRSA).

On 17 May 2007 the Accounting Standards were applied to the factoring companies by the "Notification About the Form and the Content of the Financial Statements Which Will be Declared to the Public Through the Uniform Accounting Plan and its Offering Circular Which Will be Applied to the Financial Leasing, Factoring and Financing Companies" (www.fkb.org.tr, 2014). After the "Notification of the Uniform Accounting Plan and its Offering Circular Which Will be Applied to the Financial Leasing, Factoring and Financing Companies" was issued on 24 December 2013, in the Official Gazette numbered 28861, the factoring companies have been actualising their accounting applications through this notice.

In regard of the company that receives the factoring service, the accounting records have to be undertaken according to the Uniform Accounting Application that was made obligatory through the 1. Row No. Accounting System Application General Notification that was issued in Official Gazette dated 26.12.1992 and numbered 21447. The Uniform Accounting Plan which will be used by the factoring companies in their accounting applications, is placed in detail in the Official Gazette issued at 24.12.2013 with the number of 28861.

Accounting records in the model practice are set out below;

- a) The recognition of the application examples that show the accounting records of the company which operates factoring service, have been actualised through the Uniform Accounting Plan which was issued by BRSA, dated 24 December 2013 and numbered 28861 in the Official Gazette.
- b) The accounting records of the company who purchased the factoring service have been actualised through the Uniform Accounting Plan that exists within the "1. Row No. Accounting System Application General Notification" that was issued in Official Gazette dated 26.12.1992 and numbered 21447.

A Model Practice related to the Irrevocable Export Factoring Transactions

In this type of Factoring Transaction the seller sends the invoice to its customer by putting an assignment annotation to the original invoice which is issued by itself at the same time when it dispatches the goods and by declaring that the payment will be done on account of the factoring company and delivers a copy of it to the factoring company. Regarding the irrevocable export factoring transaction an example is set out below:

ZTM Inc., has made an overseas sale contract, with 3-month maturity, in an amount of \$100.000 and with the application of monthly 1% late interest for payments. Since the ZTM Inc. does not want to deal with the collection referring to this sale contract it has decided to draw up a factoring contract and has made a contract with AZM Factoring Inc. ZTM Inc. whose business is exporting, has entered into a contract with AZM Factoring Inc. as set out below. The irrevocable factoring contract details for the export price which has 3-month maturity, and in amount of \$100.000 is related to the export transactions that are actualised to overseas by ZTM Inc. are set out below:

Date of Sale	: 20.02.2016
Interest Rate	: LIBOR + 3% (LIBOR interest rate: 9%)
Contract Amount	: \$100,000

Maturity of Receivables : 3 Months

01.03.2016 dated currency : \$1= 3.05 TL

Commission : 3%

Invoice Amount : \$100,000

Commission Amount : \$100,000 x 3% = \$3,000

Interest Amount : \$100,000 x [(9%+3%) x 3/12] = \$3,000

The export factoring transactions are exempt from tax. After deducting the interest and commission, the balance will be paid on the maturity date.

The Accounting Records of the Company Who Received the Factoring Service

On the date of 01.03.2016, the sale invoice of the ZTM Inc. regarding the export (Currency: 3.05):

According to the contract, the sale has 3-month maturity, with the application of Monthly 1% late interest for the payments.

\$100,000 x 1% = \$1,000 monthly late interest and

3-month late interest : \$1,000 x 3 = \$3,000

Sale Amount : \$100,000 x 3.05 = 305,000 TL

Late Interest : \$3,000 x 3.05 = 9,150 TL

Especially in Turkish Accounting Standards, as specified within the TMS 18 Standard, a distinction has to be made by separating the revenue from the amount arising from the date of maturity. The amount of the 3-month late interest has to be transferred into the revenue account. Regarding the sale by installments, the late interest which is in the date of maturity has to be stated as interest income, apart from the sale price of the goods. According to the Standard, when calculating the late interest, the Internal Discount Method (Effective Interest Method) will be used due to the compound interest. For the late interest, the "382/482 Deferred Income Account" could be used which will be opened in the chart of accounts (Örten vd, 2014, 257).

01.03.2016		
120 ACCOUNTS RECEIVABLE	305,000	
601 EXPORT SALES		295,850
382 DEFERRED INCOME		9,150

According to the TMS 18 Standard, the revenue is measured with the fair value of the price which was received or is going to be received. And, the revenue amount which is generated is determined mainly through the contract between the buyer of the asset and the user of the asset. Besides, according to the TMS 21 Standard, the transaction of the foreign currency is registered into the accounts through the functional currency that is in between the Foreign currency unit of the transaction date and the functional currency unit of the first recognition.

-The assignment of claims by the AZM Factoring Inc. on 01.03.2016;

The accounting record related to the assignment of the receivable which is in amount of \$100,000 x 3.05 = 305,000 TL to the factoring company:

01.03.2016		
123 FACTORING RECEIVABLES	305,000	
120 ACCOUNTS RECEIVABLE		305,000

An account code regarding the factoring is not defined within the Uniform Accounting Plan. Since the account code of 123 which is within the group of trade receivables was empty, so it is preferred. Since the factoring contract of AZM Inc. is actualised as irrevocable, as it is irreversible, there is no need to make an accounting record in the off-balance sheet regarding this contract.

-The accounting record of the commission and the amount of interest regarding the assignment of claims by AZM Factoring Inc. on 01.03.2016;

Commission Amount : \$100,000 x 3% = \$3,000 x 3.05 = 9,150 TL

Amount of Interest : \$100,000 x [(9%+3%) x 3/12] = \$3,000 x 3.05 =9,150 TL

\$3,000 /3 = \$1,000 x 3.05 = 3,050 TL March, Amount of Interest

\$3,000 /3 = \$1,000 x 3.05 = 3,050 TL March, Commission Amount

01.03.2016		
780 FINANCING EXPENSE	6,100	
181 PREPAID EXPENSES FOR FUTURE MONTHS	12,200	
123 FACTORING RECEIVABLES		18,300

-The period-end valuation of the amount which is assigned to AZM Factoring Inc. on 31.03.2016;

\$100,000 - \$6,000 (interest+commission) = \$94,000 balance

\$94,000 x 3.05 = 286,700 TL

\$94,000 x 2.90 = 272,600 TL

14,100 TL

31.03.2016		
612 OTHER DISCOUNTS	14,100	
612. 50. exchange difference expenses for export		
123 FACTORING RECEIVABLES		14,100

If the Exchange differences which arise at the current operation period regarding the export factoring receivables are on the favourable side, then, a sub account is defined under the 601 overseas sales main account and is followed as the account of exchange differences which are arisen from the export. On the other hand, the unfavourable exchange differences are debited into the 612 other discounts main account as exchange difference expenses which are arisen from the export. A valuation is also needed for the interest and the commission amount which are recorded into the temporary account in order to record them for the relevant month later.

-The period-end valuation for the interest amount for future months:

Two months interest amount $\$2,000 \times 3.05 = 6,100$ TL

$\$2,000 \times 2.90 = \underline{5,800}$ TL

300 TL

Period-end valuation to the future months commission amount:

Two months commission amount $\$2,000 \times 3.05 = 6,100$ TL

$\$2,000 \times 2.90 = \underline{5,800}$ TL

300 TL

31.03.2016		
656 FOREIGN EXCHANGE LOSSES	600	
181 PREPAID EXPENSES FOR FUTURE MONTHS		600

-The period-end valuation of the deferred income in amount of \$3,000 on 31.03.2016 (currency:2.90);

Recorded amount : $\$3,000 \times 3.05 = 9,150$ TL

Period-end amount : $\$3,000 \times 2.90 = \underline{8,700}$ TL

450 TL

31.03.2016		
382 DEFERRED INCOME	450	
601 OVERSEAS SALES		450
601.50 exchange difference revenue		

-The accounting record of the transfer of the March late interest in amount of \$100,000 export sale;

31.03.2016		
382 DEFERRED INCOME	2,900	
642 INTEREST INCOME		2,900

Regarding the sale by installments, adding the interest amount to the sale value and then reporting this causes an overage in the calculation of the period income. This situation is contrary to the periodicity concept of accounting. The interest amount that is embedded in the sale amount causes a miscalculation of the gross profit, so, this case is resolved by means of Turkish Accounting Standards.

-The transferring of the interest and the commission amount which are related to the relevant month to the relevant accounts, on 30.04.2016. (currency:2.80)

Period-end interest amount for April : \$1,000 x 2.80 = 2,800 TL

Recorded interest amount : \$1,000 x 2.90 = 2,900 TL

100 TL

Period-end commission amount, interest amount for April: \$1,000 x 2.80 = 2,800 TL

Recorded commission amount, interest amount : \$1,000 x 2.90 = 2,900 TL

100 TL

30.04.2016		
780 FINANCING EXPENSE	5,600	
656 FOREIGN CURRENCY LOSSES	200	
181 PREPAID EXPENSES FOR FUTURE MONTHS		5,800

-The April late interest in amount of \$1,000 for the sale in amount of \$100,000, on 30.04.2016 (currency: 2.80)

30.04.2016		
382 DEFERRED INCOME	2,900	
642 INTEREST INCOME		2,800
646 PROFIT FROM FOREIGN CURRENCY EXCHANGE		100

Since the period-end passes, if the exchange differences which have arisen by a change of the foreign exchange rates regarding the receivables making the export are favourable, they have to be recorded into the 646 account of the profit from foreign currency exchange as credit. On the other hand, the unfavourable exchange differences will be recorded into the account of the loss from foreign currency exchange as a debit.

-The transferring of the interest and the commission amount which are related to the relevant month to the relevant accounts, on 31.05.2016. (currency: 3.00)

Period-end interest amount for May : \$1,000 x 3.00 = 3,000 TL

Recorded interest amount : \$1,000 x 2.90 = 2,900 TL

100 TL

Period-end commission amount for May : \$1,000 x 3.00 = 3,000 TL

Recorded commission amount, interest amount : \$1,000 x 2.90 = 2,900 TL

100 TL

31.05.2016		
780 FINANCING EXPENSE	6,000	
646 PROFIT FROM FOREIGN CURRENCY EXCHANGE		200
181 PREPAID EXPENSES FOR FUTURE MONTHS		5,800

-As of 31.05.2016, the transferring of the May late interest amount of the \$100,000 sale amount to the relevant account;

31.05.2016		
382 DEFERRED INCOME	2,900	
656 FOREIGN CURRENCY LOSSES	100	
642 INTEREST INCOME		3,000

-As of 31.05.2016, the collection of the amount which is the subject of the contract from the AZM Factoring company (currency: 3.00);

Recorded remaining debt amount : \$94,000 x 2.90 = 272,600 TL

Amount on the date of payment : \$94,000 x 3.00 = 282,000 TL

9,400 TL exchange profit

31.05.2016		
102 BANK	282,000	
646 PROFIT FROM FOREIGN CURRENCY EXCHANGE		9,400
123 FACTORING RECEIVABLES		272,600

The Accounting Records of the Factoring Company

-The accounting record of the assigned amount which was mentioned in the contract by AZM Factoring Inc. to the off-balance sheets:

01.03.2016		
951RECEIVABLES FROM FACTORING TRANSACTIONS FOR WHICH A RISK IS UNDERTAKEN FOREIGN CURRENCY	305,000	
953 LIABILITIES FROM FACTORING TRANSACTIONS FOR WHICH A RISK IS UNDERTAKEN FOREIGN CURRENCY		305,000

According to the essential principle of the TFRS 15 Standard, the companies must put the revenue, which they will obtain when they assign the goods and services, into the ledger. When applying the standards, it is right to take the conditions of the contract and all the relevant circumstances and conditions into account. The procedure of recording a contract assigned with the customer within the scope of this standard;

- The contract has to be approved by the parties as written or verbal,
- Regarding the goods or the services to be assigned, the rights of all of the parties are defined,
- Regarding the goods or the services to be assigned, the terms of payment are defined,
- As a consequence of the contract, regarding the amount, timing and risk of the cash flows for the future, a change is expected.

-The submission of the receivable as an assignment by AZM Factoring Inc., on 01.03.2016;

$$\$100,000 \times 3.05 = 305,000 \text{ TL}$$

$$\text{Commission Amount} : \$100,000 \times 3\% = \$3,000 \times 3.05 = 9,150 \text{ TL}$$

$$\text{Interest Amount: } \$100,000 \times [(9\%+3\%) \times 3/12] = \$3,000 \times 3.05 = 9,150 \text{ TL}$$

$$\$3,000 / 3 = \$1,000 \times 3.05 = 3,050 \text{ TL 1 month, amount of interest}$$

$$\$3,000 / 3 = \$1,000 \times 3.05 = 3,050 \text{ TL 1 month amount of commission}$$

01.03.2016		
101 SHORT TERM FACTORING	305,000	
RECEIVABLES FOREIGN CURRENCY		
357 LIABILITIES FROM FACTORING		286,700
TRANSACTIONS FOREIGN CURRENCY		
703 FEES AND COMMISSIONS RECEIVED		3,050
FROM OTHER FACTORING RECEIVABLES		
FOREIGN CURRENCY		3,050
501 INTEREST RECEIVED FROM SHORT		
TERM FACTORING RECEIVABLES		
FOREIGN CURRENCY		
393 TEMPORARY ACCOUNT OF PAYEE		12,200
FOREIGN CURRENCY		

The revenue is the amount of gross economic benefit which becomes an increase within the owner's equity except the contribution of the shareholders of the capital, and is acquired from the interim ordinary activities of the company. On the other hand, the fair value is the price to be obtained when an asset is sold in an ordinary transaction which is to be actualised on the date of the measurement between the market participants or a price to be paid when a debt is transferred (TMS 18, md.7). The accounts stated as the foreign currency are the accounts where the amounts relating to the foreign currency transactions are recorded. According to the Turkish Accounting Standards, the balance of the foreign currency accounts are subjected to the valuation on the period-ends, so, the valuation differences are recorded into the related accounts.

-The period-end valuation on 31.03.2016 (currency: 2.90)

$$\$100,000 - \$6,000 (\text{interest+commission}) = \$94,000$$

$$\text{Registered amount: } \$94,000 \times 3.05 = 286,700 \text{ TL}$$

$$\text{Priod-end} : \$94,000 \times 2.90 = \underline{272,600 \text{ TL}}$$

$$14,100 \text{ TL}$$

Period-end valuation of the interest amount for future months:

Two months interest amount $\$2,000 \times 3.05 = 6,100$ TL

$\$2,000 \times 2.90 = \underline{5,800}$ TL

300 TL

Period-end valuation of the commission amount for future months:

Two months commission amount $\$2,000 \times 3.05 = 6,100$ TL

$\$2,000 \times 2.90 = \underline{5,800}$ TL

300 TL

31.03.2016		
357 LIABILITIES FROM FACTORING TRANSACTIONS FOREIGN CURRENCY	14,100	
393 TEMPORARY ACCOUNT OF PAYEE FOREIGN CURRENCY	600	
771 PROFIT FROM FOREIGN CURRENCY EXCHANGE		14,700

A profit has arisen because of the decrease in the currency as a result of the valuation of the debt which amounts to \$4.000 that was left to the ZTM company from the AZM Factoring company. Besides, a valuation for the interest and commission amount that was recorded into the temporary account in order to record as an expense for the related month later is required.

-The amount of \$100,000 which was received from ZTM company as an assignment on 31.03.2016 is valued.

Recorded currency : $\$100,000 \times 3.05 = 305,000$ TL

Period-end currency : $\$100,000 \times 2.90 = \underline{290,000}$ TL

15,000 TL

31.03.2016		
861 LOSS FROM FOREIGN CURRENCY EXCHANGE FOREIGN CURRENCY	15,000	
101 SHORT TERM FACTORING RECEIVABLES FOREIGN CURRENCY		15,000

-The transferring of the interest and the commission amount which belongs to the relevant month to the relevant accounts on 30.04.2016 (currency:2.80)

Interest amount belonging to April : \$1,000 x 2.80 = 2,800 TL

Recorded interest amount : \$1,000 x 2.90 = 2,900 TL

Commission amount belonging to April : \$1,000 x 2.80 = 2,800 TL

Recorded commission amount : \$1,000 x 2.90 = 2,900 TL

30.04.2016		
393 TEMPORARY ACCOUNT OF PAYEE	5,800	
FOREIGN CURRENCY		
703 FEES AND COMMISSIONS RECEIVED FROM OTHER FACTORING RECEIVABLES FOREIGN CURRENCY		2,800
501 INTEREST RECEIVED FROM SHORT TERM FACTORING RECEIVABLES FOREIGN CURRENCY		2,800
771 PROFIT FROM FOREIGN CURRENCY EXCHANGE		200

-The collection of the amounts by AZM Factoring company which are subject of the contract on 31.05.2016 (currency: 3.00);

Collected amount : \$100,000 x 3.00 = 300,000 TL

Recorded amount : \$100,000 x 2.90 = 290,000 TL

31.05.2016		
011 EFFECTIVE DEPOT	300,000	
101 SHORT TERM FACTORING RECEIVABLES FOREIGN CURRENCY		290,000
771 PROFIT FROM FOREIGN CURRENCY EXCHANGE		10,000

-The transferring of the interest and commission amount which are related to the relevant month to the relevant accounts on 31.05.2016. (currency: 3.00)

Interest amount belongs to May: \$1,000 x 3.00 = 3,000 TL

Recorded interest amount : \$1,000 x 2.90 = 2,900 TL

100 TL

Commission amount belongs to May : \$1,000 x 3.00 = 3,000 TL

Recorded commission amount : \$1,000 x 2.90 = 2,900 TL

100 TL

31.05.2016		
393 TEMPORARY ACCOUNT OF PAYEE FOREIGN CURRENCY	5,800	
861 LOSS FROM FOREIGN CURRENCY EXCHANGE	200	
703 FEES AND COMMISSIONS RECEIVED FROM OTHER FACTORING RECEIVABLES FOREIGN CURRENCY		3,000
501 INTEREST RECEIVED FROM SHORT TERM FACTORING RECEIVABLES FOREIGN CURRENCY		3,000

Since the currency is 2.90 at 31.03.2016 the interest amount and the commission amount existing in May are recorded as a debt according to the currency which is used when doing the valuation. Since this difference arises because of the change in the currency it is recorded into the accounts as Exchange difference.

-The payment of the remaining balance which is made by AZM Factoring Inc. to ZTM Inc. on maturity date is applied (currency: 3.00) :

Recorded remaining debt amount : \$94,000 x 2.90 = 272,600 TL

The record on the payment date : \$94,000 x 3.00 = 282,000 TL

31.05.2016		
357 LIABILITIES FROM FACTORING TRANSACTIONS FOREIGN CURRENCY	272,600	
861 LOSS FROM FOREIGN CURRENCY EXCHANGE	9,400	
011 EFFECTIVE DEPOT		282,000

-The accounting record regarding the cancellation of the assigned amount which was mentioned by AZM Factoring Inc. in the contract, from the off-balance sheets:

31.05.2016		
953 LIABILITIES FROM FACTORING TRANSACTIONS FOR WHICH A RISK IS UNDERTAKEN FOREIGN CURRENCY	305,000	
951 RECEIVABLES FROM FACTORING TRANSACTIONS FOR WHICH A RISK IS UNDERTAKEN FOREIGN CURRENCY		305,000

Regarding the accounting records above which belong to the Factoring company, the recognitions were actualised by taking the uniform chart of accounts as a basis, which is required to be used for the accounting records of the factoring companies as is issued by Banking Regulation and Supervision Agency. Within the uniform chart of accounts of the factoring companies who are responsible for recognition within the scope of the procedures of the Turkish Accounting Standards, the foreign currency account codes also exist. Since the model practice was actualised through the foreign currency, the foreign currency account codes were used. According to the Turkish Accounting Standards, the related accounts are valued at the period-end currency on the period-ends and the differences are recorded to the related accounts. Besides, by Turkish Accounting Standards, the records were actualised through fair values dating from the actualisation of the transactions. The expenses arising from the factoring transaction are recorded to the period which they belong.

Conclusion

The factoring transactions are one of the alternative financing methods because of their effect regarding the increase on the investments and the national income and they make substantial contributions to the economy. The factoring companies are subject to the "Financial Leasing, Factoring and Financing Companies Law" which is numbered 6361, was issued on the Official Gazette by the Banking Regulation and Supervision Agency. Regarding the recognition of the activities, the factoring companies are subjected to another Uniform Accounting Plan which was issued by Banking Regulation and Supervision Agency. They are actualising the accounting records according to the regulations and the notifications which are issued relate to the principles of the accounting and the reporting which is issued by Banking Regulation and Supervision Agency, and Turkish Accounting Standards, Turkish Financial Reporting Standards which are brought into force by Public Oversight Accounting and Auditing Standards Authority.

In this study; the procedure of the recognition of the factoring transactions through another accounting plan by the factoring companies who operate factoring services although they are subject to the Turkish Accounting Standards; and the procedure of transferring of the factoring transactions of the companies who receive factoring service to the environment of an accounting record are explained by examples. By considering the records separately, with regard to the factoring companies who benefit from another accounting plan when completing the mentioned records, and with regard to the seller company who receive the factoring service, a contribution is done to the literature.

The Uniform Accounting Plan, which is benefited by the factoring companies in their accounting transactions is another accounting plan which was issued by Banking Regulation and Supervision Agency.

The accounts within the Uniform Accounting Plan were first issued in 2007, and then amended in 2013, are practical in respect to their properties of transferring the transactions to the records in detail. The accounts that are specified in the account plan are separated according to the currency as Turkish Lira and the foreign currency. Besides, the accounts within the account plan provide a detailed follow-up of the accounting records of the transactions according to the types of the receivables and the contracts. In this study, since export factoring is discussed, foreign currency account codes were used. On the other hand, as the accounting plan which is used by the companies who receive factoring service, Uniform Accounting Plan is being implemented which is in the 1. Row No. Accounting System Application General Notification. Within this accounting plan, the detailed account codes that are related to factoring transactions do not exist. In the model practice account code definition was made for the 12th account group in order to follow the factoring transactions and for the 38th account group that is related to the deferred income.

Within the scope of the Turkish Accounting Standards the transactions which are the subject of factoring with regard to both the factoring service and the companies who receive factoring services;

- Are accounted through the fair value,
- The late interests are separately accounted for,
- The revenues are recorded to the revenue accounts at the period of actualisation,
- The borrowing costs, interest and similar expenses are recorded as debit within the period they arise.
- When doing the first recognition, the transactions of foreign currency are converted to a functional currency through the currency of the transaction date,
- The transactions in foreign currency are converted through the closing currency rate for the set period and the exchange differences are accounted for in the profit/loss statement.

As a result, regarding the export factoring transactions accounting practice which is one of the alternative financing techniques that plays a very important role in economy, the accounting records which are made by the factoring companies, and the accounting records which are to be made by the companies who receive factoring services were actualised within the scope of the Turkish Accounting Standards. A contribution to the literature is aimed by the model practice which is related to the export factoring that takes the Turkish Accounting Standards as basis, and within these standards, by the accounting records of both the companies who give factoring services and the companies who receive the factoring services. For the future studies, within the scope of the Turkish Accounting Standards which the factoring companies also are involved, regarding the import factoring and the other factoring types, the discussion of various accounting applications is recommended.

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