Accounting news introduced by Order no. 2649/2023

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Amendments in brief:

On October 6, 2023, in Official Gazette No. 903, Order No. 2649 was published, which regulates certain accounting matters. New accounting accounts are introduced, **including those related to losses resulting from mergers, corresponding to the negative net assets of the absorbed company taken over by the acquiring company, consulting expenses, and management expenses**. It also addresses the capitalization of costs in long manufacturing cycle assets. These new provisions apply starting with the annual financial statements for the fiscal year 2023 or with the first annual financial statements ending after January 1, 2024 (for companies with a modified fiscal year).

Amendments in detail:

- According to the new provisions, the general chart of accounts now includes the following accounts:
  - **1496 for 'Losses resulting from company reorganizations, corresponding to the negative net assets of the absorbed company' (A);**
  - 6121 for 'Expenses related to royalties';
  - 6122 for 'Expenses related to management rentals';
  - 6123 for 'Expenses related to leases';
  - 616 for 'Expenses related to intellectual property rights';
  - 617 for 'Management expenses';
  - 618 for 'Consulting expenses'.

- It's important to note that the debit side of account 149, 'Losses related to the issuance, redemption, sale, free transfer, or cancellation of equity instruments,' will now also include the loss resulting from a merger. This loss corresponds to **the negative net assets** of the absorbed company, which has been legally taken over by the acquiring company (456).
- The function of account 266 'Deferred Green Certificates' has been removed.
- The function of accounts 616 'Expenses related to intellectual property rights,' 617 'Management expenses,' and 618 'Consulting expenses' is introduced as follows:

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- **Account 616** is used to keep track of expenses related to intellectual property rights that do not meet the conditions for recognition as assets. Debits to account 616 record the amounts representing expenses related to intellectual property rights (401, 408).
- **Account 617** is used to track management expenses. Debits to account 617 record the amounts related to management expenses (401, 408).
- **Account 618** is used to maintain a record of current consultancy expenses. Debits to account 618 record the amounts associated with consultancy expenses (401, 408).

❖ In the case of a **corporate income tax group**, the responsible legal entity records in the debit of **account 691** 'Expenses for Corporate Income Tax' the total expense for corporate income tax owed by the tax group.

❖ When it comes to **borrowing costs related to long manufacturing cycle assets**, it's clarified that an asset is typically ready for its intended use when **the physical construction is complete**, even if some routine administrative work continues. If only minor changes are left, like interior decoration to meet the buyer's or user's specifications, then it's considered that the majority of the activities are finished. Entities that have included borrowing costs in the value of long manufacturing cycle assets provide relevant information in the explanatory notes to the financial statements.

❖ An important addition to this is the date for borrowing costs as part of a long production cycle asset, when **the entity fulfills all the following conditions for the first time:**
  - Covers the expenses for that particular asset
  - Bears the borrowing costs and
  - Undertakes the necessary activities to prepare the asset for its intended use.

❖ An entity incurs expenses for a long manufacturing cycle asset only when those expenses have led to cash payments, transfers of other assets, or the assumption of interest-bearing liabilities.

❖ The activities needed to prepare an asset for its intended use include not only the physical construction of the asset but also **the technical and administrative work before the start of physical construction,** such as activities related to obtaining permits before physical construction begins. However, such activities exclude the holding of an asset when there is no activity that changes the condition of the asset. For example, borrowing costs incurred during land development are capitalized when development activities are taking place. In contrast, borrowing costs incurred during the period when land is acquired for building construction and is held without associated development activities are not eligible for capitalization.

❖ An entity must cease capitalizing borrowing costs during extended periods when it is not actively working on completing a long manufacturing cycle asset.

❖ An entity can incur borrowing costs during an extended period when it temporarily suspends activities required to prepare an asset for its intended use. Capitalization of borrowing costs does not stop during the period when the entity is engaged in significant technical and administrative work or when temporary delay is a necessary part of the asset's preparation process for its intended use.

❖ Moreover, the costs of design and obtaining permits are expenses directly linked to the construction of a tangible asset if there are supporting documents confirming their connection to the specific asset.

❖ The previously mentioned provisions apply starting with the annual financial statements for the fiscal year 2023. Entities that have chosen a fiscal year different from the calendar year apply these provisions starting with the first annual financial statements concluded at a date after January 1, 2024.

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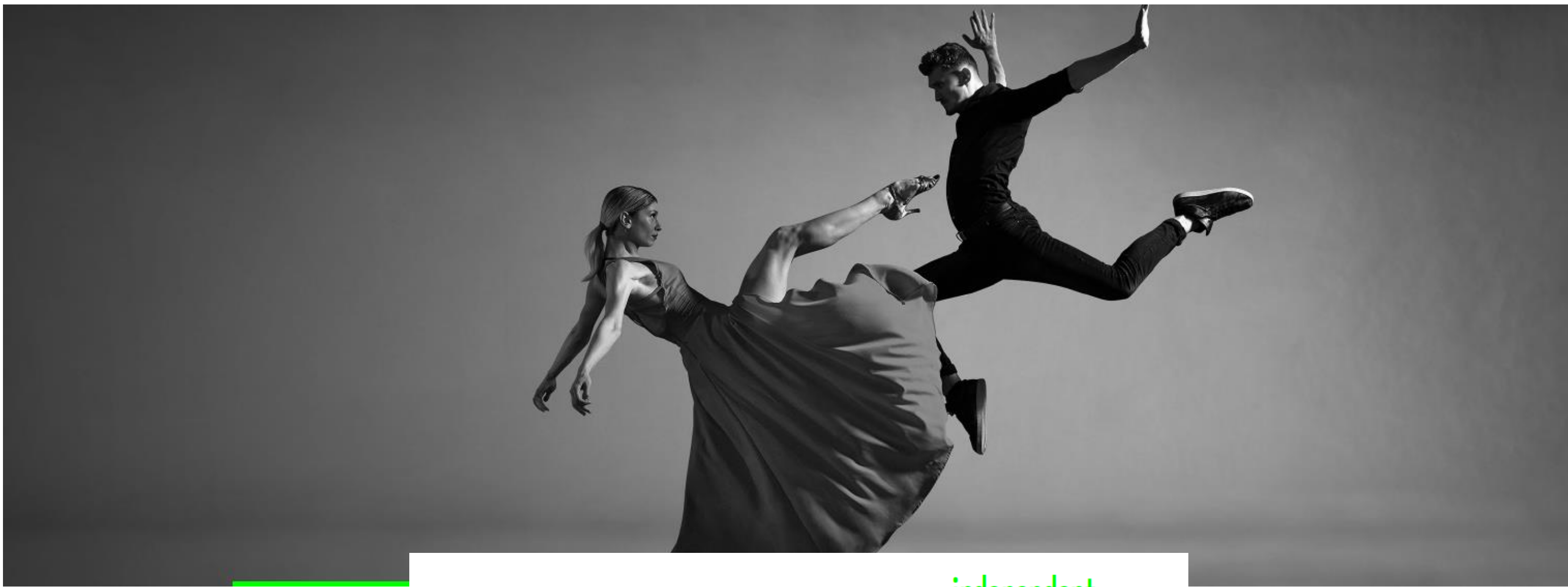
- As for the interruption of capitalizing borrowing costs, these provisions come into effect starting with the annual financial statements for the fiscal year 2023 if the impact of the accounting policy change can be determined by the date these annual financial statements are approved. If not, these provisions apply to borrowing costs incurred by the entity in connection with loans taken out after January 1, 2024.



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