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Errors and Abuses in Financial Accounting and Results

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Abstract

The effects of frequent errors and frauds in SME financial statements over business loans are considered in this study. The legal sanctions of these errors and frauds are investigated by examining the tax inspection results between 1998 and 2004. Possible was of identifying these financial statement fraud and errors are described. As a result of the "purification processes", the change in credit worthiness is explained.

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*Keywords:*Credit worthiness, financial analysis, SME

1. Introduction

Accounting is used for recording and classifying all kinds of tangible and intangible assets of a firm, which can be converted into money, and income and expenses related with business' activities. According to Sevilengul (2003: 9), accounting is an information system that creates information about the financial situation of an organization and transmits data to related parties about the formation of sources of the organization, the changes in these sources due to the operations of the organization. Related parties are managers, employees, shareholders (partners), lenders, employees and investors.

The accounting books are also classified and recording technique is reported by law in order to ensure uniformity. As stated in Article 176 of the Tax Procedure Law, first class merchants keep accounts according to balance sheet basis, second class merchants keep accounts according to operating ledger, where first-class traders are classified on the basis of net sales or net purchases. These companies, as it is stated clause 182 of Tax Procedure Law, are responsible for keeping journals, ledger, wherein journal entities are put together and inventory lists where are

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recorded. This responsibility of the accuracy of the records fall onto directors, shareholders and independent accountants, financial advisors and certified public accountants (CPA), who are not salaried employees.

On the other hand, only supervision for the companies which are not subject to Capital Markets Law, is carried out by tax auditors. First of all, supervision consists of the verification of the accurateness of tax assessment and the control of concerned promotive documents. (Tekin, Celikkaya, 2007:229). However, if the ledgers do not show any attempt for decreasing of tax assessment, the nature of any falsification is ignored or leastly not given importance by tax auditors. The mistakes that are made in the financial statements are corrected with the personal endeavor of CPA. While fraud aims to deceive intentionally the concerned people by showing the existing thing in a different way, error consists of the actions without the trace of any intention and profit. (Simsek,2001: 13). The responsibility of public authority is determining such fraud and errors and composing of proper control systems. (Sipahi, 2004:117). However, the sanctions for fraud and errors in the balance sheet are located in the Capital Markets Law.

The balance sheet is declared in corporate tax return at the end of accounting periods. In order to increase credibility of the financial statements, accounting operations for adorning the statements are used. In this regard, the income statement is specially failed by omission of recording some of the expenses in order to acquire better performance results (Alpturk, 2007: 24).

In the name of increasing profitability, some expenses are capitalized or not registering of some expenses; for the extra net working capital, becoming current assets some tangible assets records by the rectifying entry some in addition to make short-term debt seem as long- term debts are common tricks. (Ulusoy, 2009:121). These frauds can be determined by credit analyses, and deducted from reserved funds which records should involves the income statement and that are not noted; the rest of it is deducted from undistributed profits.

In this study, the reasons and the results of accounting fraud and errors, which do not affect tax assessment, are investigated. In this scope, accounting fraud and errors of SMEs, which are not subject to the Capital Markets Law, will be discussed in the scope of credit worthiness management. In addition, the effects of financial statement corrections on bank credit demand management are discussed. Financial statement adorning and the results of this upon the effect of the credit demands of SMEs will be mentioned.

2. The theoretical background of Turkish accounting system

A firm begins to operate with a payment into equity capital. It invests in infrastructure, etc. in case of necessity. It buys raw material or goods to be transformed into other goods used in selling. They sell what they have bought or produced. At the end of all of these processes, asset structure of the firm is determined. For these events, it can meet situations in which it needs to find funds. Potential fund sources can be shareholders or third parties. At the end of all of these operations, financial statements of the firm will come into existence. These operations are conducted by shareholders of firm and employees. Any documents available for the abovementioned transactions should be presented to accounting department or CPA.

If this information is explained what it must be and in condition of making account in the right way, the financial situation of the firm is seen clearly. After general journals and detail account are formed, balance sheet and income table will appear as the summary of all these. Any true analysis that is conducted according to a non present statement will result in a false way. The possibility of getting a right result from a non present statement is less even than the potential of showing the exact time of a broken watch. This analysis causes information report and independent audit report that is reported to management of the firm, also evaluations which are made by banks to be shareholder or to give debt to third party false. Also with that it causes the appearance of wrong decisions. This can cause financial punishments such as tax loss for not being loyal to tax procedure law or punishments that make firm and its shareholder pay financial punishments.