An Examination of the Accounting Policies Implemented at Mines in terms of CMB, Tax Legislation and TFRS within the Framework of Turkey Financial Reporting Standard-6

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Abstract

The mining industry is one of the most global industries in the world. Mining companies’ position in the economy, their specific structures and their multinational characteristics mean it is important for the data they present within financial statements to be comprehensible and comparable. Many countries require corporations to prepare their financial statements according to the International Financial Reporting Standards (IFRS). Regulatory bodies in many countries therefore adapt their national standards to IFRS, which has increased the transparency and comparability of financial statements worldwide.

This study examines internationally accepted accounting policies, which are used for the recognition of mining operations and expenses incurred during these operations; and then addresses the principles of Turkey Financial Reporting Standard-6 (TFRS-6). This study compared the principles of TFRS-6 that comply with the widely accepted accounting policies of mining companies and widely accepted accounting policies. Therefore, the principles of IFRS-6 are addressed, and Turkish legislation towards the recognition of mining operations is explained in the last part of the study.

Key Words: TFRS-6, Mining Companies, Accounting Policies, CMB, Tax Legislation

1. Introduction

Considering the position of the mining sector in national and global economies, financial information regarding this sector should be accurate, reliable and comparable. The differing accounting and reporting principles between countries and companies both increases the costs of producing financial information and restricts access to accurate and reliable financial information. The use of differing accounting and financial reporting principles require companies to prepare multiple financial statements, especially in terms of accounting practices. These factors indicate the need for an accounting standard within the sector.

Accounting practices affecting the mining sector date back to the 1970s; however, no standard specifically related to the mining sector was published until the IASB, in the 2000s. Accounting policies regarding the mining sector were prepared within the IAS-38 Intangible Assets standard and the IAS-16 Tangible Assets standards. International Accounting Standards Board (IASB), whose aim is to harmonize international accounting policies and practices. The IASB established an executive board in 1998, and launched initiatives to prepare a financial reporting standard for the oil and mining industries. Following these initiatives, national accounting practices in the oil and mining industries and the differences in this field were discussed in 2000. However, the Board suspended its operations to publish a specific financial reporting standard of oil and mining industry in 2002 due to time restriction, and started to prepare a financial reporting standard for exploration and evaluation only. In 2004, the draft report on Exploration for and Evaluation of Mineral Resources was published. (The lack of an IFR standard for the oil and mining industries and the removal of this industry from the scope of IAS-38 (Intangible Assets) resulted in an ambiguous environment for oil companies, which are obliged to arrange their financial statements in accordance with the IFRS as of 1 January 2005. In order to resolve this ambiguity, the Board decided to prepare a standard for exploration and evaluation until a standard for the oil and mining corporations is developed.) In 2005, the draft was
completed, and the IFRS-6 (Exploration for and Evaluation of Mineral Resources) standard was created. The Board decided that the IFRS-6 should enter into force on 1 January 2006 (www.iasb.org). The same standard was published on the Official Gazette No 26066 of 31/01/2006 in Turkey under the name “TFRS-6 Exploration for and Evaluation of Mineral Resources” standard, to be implemented for accounting periods as of 31/12/2005. The above-mentioned Turkish standard was amended by Notification No. 77 on the Official Gazette (No. 26966 of 13/08/2008) so that it shall comply with changes in the International Financial Reporting Standards. The amendment was made by TFRS-8 and is valid for accounting periods as of 31/12/2008. TFRS-8 could be implemented earlier, if required. Amendment regarding earlier implementation is valid for accounting periods as of 31/12/2007 (www.tmsk.org.tr/tms_seti/tmstfrs2011ktp/TFRS_6.pdf).

The accounting policies selection period was removed from the scope of the accounting policies selection period within IAS-8 Accounting Policies, Amendment in Accounting Estimates Standard. Therefore, IFRS-6 is a standard with highly flexible and embedded accounting policies. Standard creators consider every country to be at the same level of development in terms of accounting practices, and adopt a common accounting language while preparing such standards. However, countries’ long-established accounting cultures may prevent them comprehending or cause them to misunderstand the widely accepted accounting policies embedded within the standards. The same problems may apply to Turkey, which has recently started implementing such international accounting standards (Karapınar et al., 2010, p.46).

The present study contributes to the literature on the above-mentioned situation. This study highlights that the companies reporting their activities according to TFRS-6 may misunderstand the standard, as the accounting policies arranged by the standards are not clear. This is because the arrangements embedded within these standards, published by IASC and implemented by approximately 120 countries, make it difficult to access comparable financial information with only one set of accounting standards (http://www.ifrs.com/ifrs_faqs.html#q3). Therefore, this study addresses the widely accepted accounting policies used for the recognition of the special structure of mining activities, and of the exploration and processing of mineral resources; and highlights the embedded accounting policies by comparing these policies with the arrangements in TFRS-6.

2. Mining Activities

Mining is a very broad sector, including a wide range of minerals and different production technologies. The growing global energy demand requires the efficient use of underground resources. Every mineral has a different production process. Generally, the process begins with the exploration evaluation of an area with potential mineral reserves. Where the exploration and evaluation process shows potentially viable reserves, commercial mining production begins (http://www.maden.org.tr/genel/bizden_listele.php?bizden_kod=5). Preproduction processes may be both lengthy and costly. Therefore, robust accounting practices are required. Before examining the accounting outcomes of the operating process, the processes involved should be defined. Although differing terms are sometimes used, there are five common terms describing different processes of mining operations (PricewaterhouseCoopers, 2007).

First Process – Exploration: 'Exploration' means the search for resources for commercial use. Exploration includes,

- The review and analysis of historical research data for an area;
- Conducting topographic, geochemical and geophysical studies; and
- Sounding, trenching and sampling operations for the purpose of exploration.

Second Process – Evaluation: ‘Evaluation’ is the determination of the technical feasibility and commercial viability of a mineral resource. Evaluation includes:

- The bedding volume and grade;
• The examination and testing of the mining methods and the metallurgical or processing processes; and
• The examination of the transportation and infrastructure requirements, and conducting market and financial studies.

As a result of the evaluation process, proven or potential reserves are assessed by a feasibility study, and a mine improvement decision is made.

Third Process – Improvement: 'Improvement' means the establishment and operation of the sites for mining, processing and producing mineral reserves, and other preparations for commercial production. These include:
• Shaft drilling and underground waters;
• Steady excavation;
• Road and tunnel construction; and
• High destruction of the peak load and waste rock.

Fourth Process – Production: 'Production' refers to daily activities, including producing a saleable commercial product from the mineral resources. This process includes any processing prior to the mining and selling of the minerals.

Fifth Process – Closure and Rehabilitation of the Mine Site: The site is closed after mining operations end, and the site is restored and rehabilitated.

The start- and end points of each process are important for the calculation of their costs. These processes mostly coincide with each other, and some may be realized simultaneously. Therefore, determining the start and end point costs between these processes is sometimes difficult. The following issues should be considered in order to distinguish these processes (PriceWaterhouseCoopers, 2007).

Exploration and Evaluation: Exploration cost refers to searching for mineral resources; evaluation cost involves proving the technical feasibility and commercial viability of any resource explored. Distribution of the exploration and evaluation costs is important in making capitalization and charging decisions, e.g. capitalization of the evaluation costs while charging the exploration costs.

Evaluation and Improvement: The line between evaluation and improvement is a very sensitive accounting issue. This line occurs with the determination of the technical feasibility and commercial viability of the mineral resources; banks conduct appropriate feasibility studies (BFS) and make a decision based on the BFS, which:
• Determines the commercial viability of the project;
• Determines the appropriateness of the financing;
• Determines the available markets or long-term agreements for the product; and
• Decides whether the mine should be improved.

The distinction between charging the evaluation costs and capitalizing the improvement cost of a company is especially important. This is because the provisions of TFRS-6 apply only to the exploration and evaluation costs, not to the improvement costs.

Basic costs of the evaluation process cover planning and feasibility studies; on the other hand, improvement costs are related to access to the resources after the improvement decision is made. The date of the acquisition of the freehold may be important for determining the line between the evaluation and improvement processes. When a decision is made to evaluate a mine, additional exploration and evaluation costs are recorded as improvement costs. Any capitalized exploration and evaluation costs are added to the improvement costs.

Improvement and Production: Determining the improvement and production processes can be difficult. However, this is the most important aspect for the calculation of the mine costs, because a change in production means that the cost can no longer be capitalized should thereafter be charged as the operating
cost.
Active assets should definitely be ‘appropriate to use’ before they are devalued. Assets are generally considered to be ‘appropriate to use’ for mining companies when they are commercially produced. This does not always mean the buying of certain sites for technical service. It can be difficult to determine when the commercial production level is reached, and the decision is generally made upon negotiations between accountants, engineers and metallurgists, and depends on several criteria, including:

- The determined percentage of the mine and site design capacities;
- Approximate or expected levels of mine recovery;
- Continuous production or another successful outcome.

In any case, the percentages and levels of recovery are determined beforehand. In the case that a serious delay occurs in the improvement process, or the determined commercial levels of production are not achieved because of external factors, these factors should be reviewed.

Moreover, improvement continues in the following situations after production begins:

- Stripping cost at opencast mines where the peak load is taken out before production; and
- A temporary unconformity between the waste/resource ratio and the mine life ratio.

Underground mining operations include the extension of the well or similar important excavations. Relevant costs are capitalized when the site is improved.

Production and Closure: Mine life is considered to end when the resources are depleted or the mine is closed for any other reason; and when the ore feed to the site is stopped or production ends. Possible costs of the closure process include:

- Workers’ compensation cost;
- Restoration cost; and
- Rehabilitation cost and environmental expenditures.

3. Recognition of Mining Activities

Mining activities are grouped under five headings, described above. However, three subjects are important in the recognition of these activities:

- Determination of the scope of the expenditures to be capitalized,
- Amortization of the capitalized expenditures, and
- Recognition of the closure activities.

Determination of the accounting policies regarding these three subjects is important for the recognition of mining activities. The costing methods will be determined by which of the expenditures of the mining companies are capitalized (Karapınar et al., 2010, p.51).

Costing Methods Applied in the Mining Sector: The Scope of Expenditures to Be Capitalized

Recognition of the mining activities of searching, exploration, evaluation and improvement differs between companies and countries. The following methods are used to monitor these activities: Full cost, Successful effort and Area of interest methods (Wright & Gallun, 2008).

Full Cost Method

The full cost method is where all the expenditures are capitalized, whether or not the result of an exploration is successful (Wright & Gallun, 2008).
Successful Effort Method
In the successful effort method, the expenditures of the searching, exploration and evaluation processes are capitalized when a sufficient size and quality reserve is found as a result of these processes (Wright & Gallun, 2008).

Area of Interest Method
The area of interest method, namely the project method, is considered to derive from the successful effort method. In this method, all the costs are either directly related to an area of interest or distributed to these areas appropriately (Wright & Gallun, 2008).

Amortization of Capitalized Mining Activities Expenditures
Amortization of capitalized mining activities expenditures is paid off on the basis of useful life, according to the normal amortization or amortization as per the production unit methods. Useful life in the mining sector is the expected life cycle of the natural asset subject to amortization or the number of production units acquired from the mine as a result of the capitalized increasing costs (http://www.pwc.com /gx/en/energy-utilities-mining/pdf/real_time_mining.pdf).
Normal amortization method suggests that the capitalized expenditures in the mining sector are paid off equally in every period within the expected life of the reserves. The expected life of the reserves is the total duration of the production expected from the reserve.
Amortization as per the production unit method suggests that the capitalized expenditures are paid off based on the amount of producible reserve. Amortization as per the production unit method is flexible in that it assumes the mineral reserve may change in every period, e.g. the production from operable oil wells is greater within the first years than in subsequent years. Therefore, the amortization expenditure amount of an oil company that is charged to the cost of a product in the first years is less than the amount calculated as per the production. This situation changes the amortization and the profit after tax between years.
On the other hand, in the normal amortization method, more amortization expenditure resulting from the lower mineral reserve in the following years affects the operating result of the period as a result of the effect of the fixed costs. According to the normal amortization method, amortization expenditures in the form of fixed costs become variable costs in the amortization, as per the production method (Karapınar et al., 2010, p.56).
If the successful effort method of costing is used, amortization expenditures are charged to the product cost, based on only the final reserves. Therefore, amortization expenditures generally cover all the improvement expenditures. Accumulative costs of the wells in the final reserves are paid off according to the chosen amortization method. Amortization of operating wells that are not yet proven is made according to the final positive or negative result. In the successful result method, costs regarding the capitalized searching, processing, exploration, improvement or evaluation activities are generally charged upon the final and likely-to-be-final reserves. In the full cost method, these costs are charged upon all the reserves, whether final or not, which are not evaluated separately (http://www.pwc.com /gx/en/energy-utilities-mining/pdf/real_time_mining.pdf).

Recognition of Closure Costs
Closure costs are charged when they emerge. The company should allocate an allowance for the restoration and rehabilitation practices it is obliged to perform. The amount of this allowance should be accurately estimated. As mining investments are long-term investments, the time value of the money is important in the determination of the restoration allowance. Therefore, the allowance that companies should allocate for these
expenditures is equal to the present value, calculated with an appropriate discount of the estimated expenditures in order to meet this obligation. The allowance level should be updated at every balance sheet date. These allowances may be capitalized upon the requests of the companies. International Accounting Standards neither prohibit nor oblige the capitalization of these allowances (Karapınar et al., 2010, p.56).

4. Reporting Mining Activities in accordance with Accounting Standards

The preparation process of IFRS-6 was very controversial, because large oil companies interfered in the preparation an accounting standard. The implementation of the successful effort method was particularly controversial (Cortese et al., 2009, p.7).

The Financial Accounting Standards Board (FASB) suggested the implementation of a successful effort method as a single cost method for exploration and evaluation expenditures in the mining sector; however, a lobby of large oil companies insisted that the implementation of a full cost method would be much better for the development of their companies.

As a result, studies conducted within societies that are important for the International Accounting Standards Board (IASB) successfully lobbied that the standard should not propose any specific method. Following protracted studies, the "IFRS-6 Exploration for and Evaluation of the Mineral Resources Standard" was published in its present form in 2004, to be implemented as of 2006.

The same standard was published in the Official Gazette (No 26066 of 31/01/2006) in Turkey, under the name “TFRS-6 Exploration for and Evaluation of Mineral Resources”; the standard was to be implemented for accounting periods as of 31/12/2005, and was subsequently updated in 2008.

Principles of the TFRS-6

Scope
This standard is applied to exploration and evaluation expenditures. It does not does not supersede the accounting practices of the companies related to exploring and evaluating mineral resources. The following expenditures of a company are not within the scope of the TFRS:

- Expenditures prior to the exploration and evaluation of mineral resources, such as the costs of securing legal rights for exploration of a certain area,
- Expenditures that occur after the technical feasibility and commercial viability of mining in a mineral resource were proven.

Recognition of the Exploration and Evaluation Assets
A company recognizing the exploration and evaluation assets implements the provisions in paragraph 10 of the TAS-8 standard (Accounting Policies, Changes in Accounting Estimates and Errors) in order to develop its accounting policies.

When developing an accounting policy regarding an issue that cannot be regulated by any TFRS, the management should consider the provisions in paragraphs 11 and 12 of TAS. According to paragraphs 9 and 10, TFRS waives a company from applying paragraphs 11 and 12 to policies regarding the recognition and calculation of the exploration and evaluation assets.

Calculation of the Exploration and Evaluation Assets
Exploration and evaluation assets are calculated by the cost value. A company should adopt a policy regarding which expenditures are to be recognized as exploration and evaluation assets, and should properly implement this policy. A company should consider to what extent expenditures are related to the exploration

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of certain mineral resources while adopting the above mentioned policy. Examples of expenditures that can be included in the recognition of the exploration and evaluation assets for the first time are given below (further issues may be included):

- Securing the right to explore;
- Topographic, geologic, geochemical and geophysical studies;
- Exploratory sounding;
- Excavation;
- Sampling; and
- Activities relevant to the evaluation of the technical feasibility and commercial viability of mining a mineral resource.

Expenditures regarding the improvement of mineral resources cannot be recognized as exploration and evaluation assets. In the recognition of assets that occur as a result of improvement activities, the provisions of the "Conceptual Framework for the Preparation and Presentation of Financial Statements" and the "TAS-38 Intangible Assets" standards are taken into consideration.

Where a company undertakes the exploration and evaluation of mineral resources, it reflects the removal and restoration obligations of a certain time to the financial statements in accordance with the TAS 37 standard on “Provisions, Contingent Liabilities and Contingent Assets”.

After the first recognition, a cost model or revaluation model is applied to the exploration and evaluation assets. The revaluation model (the model in the "TAS-16 Tangible Assets" standard or in TAS 38), in cases where it is applied, should be consistent with the classification of the assets (see: TFRS 6 Paragraph 15).

A company may change its accounting policies regarding the exploration and evaluation expenditures where the change provides more information regarding the economic decision-making needs of the users of financial statements, and does not make these statements less reliable, or where it makes them more reliable, or does not result in less information, as per the above-mentioned needs. The company evaluates the relevance and reliability issues in terms of the decision-making needs of the users of financial statements within the criteria of TAS-8. A company may only change its accounting policies regarding exploration and evaluation expenditures where that change harmonizes the financial statements of the company with the criteria of TAS-8. However, it is not obligatory that the change should be completely consistent to the above-mentioned criteria.

Classification of the Exploration and Evaluation Assets

A company classifies its exploration and evaluation assets according to their characteristics as tangible or intangible assets, and this classification must be implemented consistently.

Some exploration and evaluation assets are evaluated as intangible assets (e.g. drilling/sounding rights), while others are evaluated as tangible assets (e.g. vehicles and drilling/sounding equipments). If a tangible asset is used for the improvement of an intangible asset, the relevant cost is regarded as part of the cost of the intangible asset. On the other hand, the use of a tangible asset for the improvement of an intangible asset does not transform the tangible asset into an intangible asset.

Reclassification of Exploration and Evaluation Assets

When the technical feasibility and commercial viability of a mineral resource are proven, exploration and evaluation asset can no longer be classified as such. Exploration and evaluation assets should be evaluated in terms of impairment before reclassification, and the impairment losses, if any, should be recognized.
Recognition and Calculation of Impairment

When relevant information and conditions indicate that the exploration and evaluation asset may exceed the recoverable book value, exploration and evaluation assets are evaluated in terms of impairment. In this case, a company calculates the impairment loss in accordance with TAS-36, and presents and declares it to the public, except for the exemption stated in paragraph 21.

For the determination of an exploration and evaluation asset with impairment, the provisions in the paragraph 20 of the TFRS are implemented rather than those in paragraphs 8–17 of TAS-36. The term ‘assets’ is used in paragraph 20 of the TFRS; however, it applies to different exploration and evaluation assets or cash-generating units.

One or more of the following items and conditions indicate that a company should test exploration and evaluation assets in terms of impairment (the list is not exhaustive):

- The exploration right of a company at a certain site ends within the period or is about to end, and it is not expected to be renewed.
- No significant amount of expenditure is budgeted or for further exploration and evaluation of mineral resources at a certain site.
- Following exploration and evaluation activities at a certain site, no commercially implementable mineral resources are found, and thus the company decides to cease all such activities at the site.
- Although improvement is possible at a certain site, relevant information and conditions indicate that it is not possible to recover the book value of the exploration and evaluation asset via a successful improvement or sale.

In such cases, the company implements an impairment test in accordance with TAS-36, under which any impairment loss is recognized as expenditure.

Determination of the Processes for Evaluating Impairment of Exploration and Evaluation Assets

A company determines an accounting policy in order to distribute the exploration and evaluation assets to cash-generating units or unit groups, so that it can evaluate them in terms of impairment. Each of the cash-generating units or unit groups to which the exploration and evaluation assets are distributed cannot be any greater than the segments, based on the primary or secondary reporting model, determined as per the "TFRS-8 Operating Segments" Standard.

The impairment level determined by the company for the exploration and evaluation assets may cover one or more cash-generating units.

Measures beyond the Scope of the GAAP (Generally Accepted Accounting Principles)

Investors and analysts often request further information from mining companies. IFRS determines the order and content of financial statements of a mining company; however, the management may decide to present further information to investors, such as measures beyond the scope of GAAP. The most common examples of such measures include Earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), and various earnings based on the significant opinion of the management regarding the investors or the underlying earning forms. Another common measure in the mining industry, beyond the scope of the GAAP, is cash costs, e.g. gold mining companies mostly offer a cash cost per ounce of gold.

IFRS offers minimum explanations and a form regarding the income statement and relevant notes of a mining company. Moreover, IAS 1 (Presentation of Financial Statements) enables the inclusion of the explained issues, titles and subtotals, thus contributing to the understanding of the reader. As a measure not
described in IFRS does not possess the basis of a calculation stated in the literature, such measures are considered as being beyond the scope of the GAAP. There are many such measures in the industry, but others may be specific to individual companies.

IFRS does not prohibit the use of measures beyond the scope of the GAAP. However, the management should consider the local regulatory and listing conditions and regulations. Some countries completely prohibit the use of such measures, while others impose restrictions regarding the presentation of these measures. Measures beyond the scope of the GAAP that local regulatory conditions allow:

• Should be carefully described, so that the investors can make comparisons between companies; and
• Should be presented on a consistent yearly basis.

Listing each measure beyond the scope of the GAAP is an important issue in that the names may be misleading. In any case, measures beyond the scope of the GAAP should be considered to be an effect rather than a substitution of the IFRS. It is also important that the above-mentioned measures should be presented in conformity with the original presentation conditions. Therefore, these measures should not be overrated or used to mislead investors (PricewaterhouseCoopers, 2007).

Cash costs
Mining analysts use cash costs as the key measurement of the performance of a mining company, because cash costs:

• Provide useful information regarding the productivity of the mine, and its position on the cost curve; and
• Allow for a mine to be compared with others in the industry; and
• Enable investors to evaluate the cash-generating ability of the mine at different commodity prices.

There are no direct standards regarding the calculation and reporting of cash costs. However, the Gold Institute published a voluntary standard for the reporting of cash costs within the gold industry. The main purpose is to tabulate mineral costs per unit; the standard can be easily implemented for other minerals (PricewaterhouseCoopers, 2007).

5. Reporting the exploration and evaluation expenditures in accordance with the Turkish Legislation
In Turkey, there is no a private arrangement for the accounting system of mining enterprises. However, within the framework of Notification of General Application of Accounting System and Uniform Chart of Accounts which is in force in our country, mining enterprises are subject to provisions that all companies have to obey.

In Turkish legislation, arrangements related to accounting are involved in tax laws and mainly in Tax Procedure Law (VUK-TPL) numbered 213 and notifications. Regulatory organizations and institutions such as (CMB and BRSA) published accounting standards for their own regulation areas. So that, accounting is aimed to reflect the real and accurate financial situation of the company and to inform investors correctly not to be just for taxes.

The Turkish Commercial Code, tax legislation and the Capital Markets Law provide some arrangements for the recognition of the activities of mining companies. The principals regarding the recognition of the mining activities are regulated by:

• The Capital Markets Board legislation (CMB),
• Oil and Mining legislation, and
• Tax legislation.
Capital Markets Legislation
The Capital Markets Law, which was prepared for public companies and companies regarded as public companies, states that the accounting practices of such companies are subject to IAS/IFRS. Therefore, all companies listed on the stock exchange should prepare their financial statements in accordance with the provisions of the IAS/IFRS. Non-listed mining companies are subject to the tax legislation only in terms of recognition and reporting, while listed companies should report according to both tax and CMB legislations. This situation increases the costs and the workloads involved in producing financial information (CMB, 2004-2005).

Oil and Mining Legislation
Oil reserves and mines are under the executive ruling and Act of the government. Therefore, oil and mine exploration rights are subject to the authorization of the government, and the qualifications that a company should possess in order to be authorized to explore for oil or minerals are arranged by Oil Law No. 6326 and the Mining Law No. 3213.

According to the Oil Regulation, records and accounting practices regarding the activities of oil companies can be freely determined according to type of job in accordance with the Tax Procedure Law and the Oil Law. According to the Oil Law, all oil companies are subject to the provisions of the tax law for the recording and accounting practices regarding their activities. According to the Oil, companies that secured rights to operate a mine are free to capitalize or charge the expenditures of the exploration and improvement processes. According to the law, capitalized exploration expenditures are evaluated out of the searching–sounding expenditures capitalized by companies securing the right to oil exploration, and the expenditures of opening unproductive wells are excluded from their book values. These expenditures are considered to be capitalized if they are not charged during the period in which they occur.

Oil Law defines depletion expenses in terms of amortization of capitalized expenditures and the accounting policies to be implemented. Depletion expenses include: Capitalized exploration expenditures, capitalized drilling expenditures, capitalized evaluation expenditures, and expenditures of opening unproductive wells. Depletion expenses are calculated separately for each site based on the rates determined jointly by the Ministry of Finance and the General Directorate of Oil Affairs.

Tax Legislation
Tax Procedure Law does not address the issue of charging or capitalizing mineral and oil exploration and improvement expenditures, but provides for the recording of such expenditures only according to their cost values. According to the tax laws, expenditures of securing oil exploration rights and of improving and operating the reserve are capitalized as Intangible Assets. It is remarkable that the law does not differentiate between whether the capitalized expenditures are mineral exploration–improvement expenditures or operating expenditures. All of the expenditures of mineral exploration and improvement are capitalized as Intangible Assets.

Expenditures arising from securing the right to explore a mine and expenditures capitalized according to their cost value are paid off by amortization as long as the company has the right to explore. According to the tax laws, it is possible for mining companies to directly charge their expenditures. According to the Uniform System of Accounts, the expenditures incurred in oil exploration and determining whether a mineral deposit is operationally viable are reviewed in the account titled "Exploration Expenditures". Internationally accepted accounting policies require the capitalization of these expenditures in a suspense account the moment they are realized, and their transfer to a different account according to the
outcome of the exploration (Hacırüstemoğlu et al., 2006, pp.28-29). Where exploration studies indicate a producible mineral resource or oil reserve, these expenditures are paid off. If the exploration is unsuccessful, these expenditures are directly recorded as economic losses. Amortization rates to be applied to oil exploration and improvement expenditures are determined by the Ministry of Finance by considering the reserve condition. As the benefit of the expenditures of opening an oil well or removing the ground cover of an area in order to mine is limited by the amount of oil or mineral to be acquired from the site, such expenditures are subject to depletion (Sevilengül, 1998, 405), and are reported as “Assets Subject to Depletion” in the Uniform System of Accounts in Turkey. "Preparation and Improvement Expenditures" list the expenditures of preparation activities such as removing the coat upon the mineral, establishing the mine and breaking down the mineral deposits into producible pieces. Both accounts are paid off by amortization. Mine or quarry owners or concessionaires are supposed to apply to Ministry of Finance for their depreciation rate to be determined in relation to the 316th law of VUK-TPL so that they could set aside depreciation from costs and concession fees. Otherwise, they could neither save these costs as expenses nor set aside depreciation (Tuğlu, 2007, p.85). Because of the dangers it contains mining labor is one of the leading occupations. With these arrangements, the wages that mine workers get from their underground work are exempted from income and stamp taxes so the workers in the mining sector are encouraged and protected (Türkay, 2005).

6. Conclusion
The present study examined the accounting policies of mining companies. In the international literature, three methods were applied to the expenditures of mining activities: Full cost, Successful effort, and Area of interest methods. The standard covers only exploration and evaluation activities, not all mining activities. According to the standard, companies may develop their accounting policies for the above-mentioned expenditures, provided that they conform to the principles regulating general financial statements. That is, the standard does not provide a political regulation. The omission of a policy may result in the misinterpretation and misimplementation of the widely-accepted standards, and may prevent economic decision-makers accessing accurate, comprehensible and comparable financial information. Moreover, the fact that this sector is regulated by several pieces of legislation increases the costs of producing financial information and prevents the presentation of accurate information to economic decision-makers. In the Accounting System of Turkey, the accounts and operations which are applied to Mining Companies permit fair presentation without contrasting to TFRS 6 and TAS 38’s provisions. These operations are Provision for Losses and recognition of liabilities encountered by company related to Closure and Rehabilitation of Mine Site process which is the last stage of Mining. These two subjects are important with regards to reading operating results and seeing the picture properly. But, there are serious bothers especially about provision for losses test in our country. Difficulties in assessing the fair value of goods on market are the reason for it. In parallel with international practices, it is considered that these bothers are going to disappear in our country in accordance with total harmony strategy. As most mining companies are multinationals, consistency in international accounting and financial reporting principles is of great importance. Therefore, accounting standards should be able to meet the requirements of the companies. Another important aspect is that national variations in the understanding of producing financial information or the use of implicit or open-ended regulations within the standards may result in misunderstandings. As a
result, differing information within financial reports may prevent decision-makers from taking appropriate
decision. Therefore, standard makers should not allow embedded accounting policies within the standards.

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