

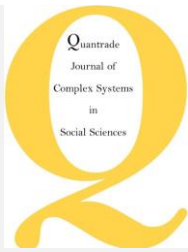
## PAPER DETAILS

TITLE: The Effect Of The Construction and Repair Progress Payments Spanning Years Account-35 on The Market Value of a Company in The Financial Statements Prepared According to International Financial Reporting Standards

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# The Effect Of The Construction and Repair Progress Payments Spanning Years Account-35 on The Market Value of a Company in The Financial Statements Prepared According to International Financial Reporting Standards<sup>1</sup>

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## Abstract

The laws and regulations that guide the accounting system in Turkey bringing forth different applications compared to the international accounting system caused users to experience difficulties. The aim of the companies is to facilitate the access to understandable and comparable company information for investors and other financial statement users by preparing their financial statements showing their financial position in accordance with International Financial Reporting Standards. National and international investors have been allowed to closely monitor the financial position of publicly traded companies in Turkey through Istanbul Stock Exchange (BIST). Market value of businesses has become one of the issues of increasing importance in financial markets. There are several factors that affect the market value of businesses. In this study, the effect of the 35 Construction and Repair Progress Payments Spanning Years item used by the sample companies operating in the construction sector (whose construction work lasts more than one year) at the Public Disclosure Platform is examined. As a result of the study, it cannot be said that there is a direct positive relationship between 35 Construction and Repair Progress Payments Spanning Years account group and the market value of the business considering the other factors which affect the market value. However, when other factors are ignored, if the progress payments increase, it is concluded that the company has a business in its hand and is active in its field and that its market value may increase.

**Keywords:** International Financial Reporting Standards, 35 Construction Repair Progress Payments Spanning Years Account, Market Value

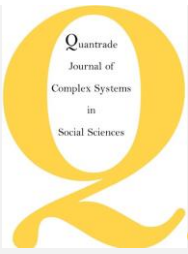
## Introduction

Just like the use of a common international language, with the effect of the globalizing world, a common accounting language has been required to be comprehensible by everyone in order to maintain a single order within the accounting system and to reduce the costs of communication and computing (Rayy & Ball, 2006). This language, which is called accounting standards in the world, is translated as Turkish Accounting Standards (TAS) and Turkish Financial Reporting Standards (IFRS) in Turkey. The international accounting standard used in construction business activities is approached as Revenue from IFRS-15 Customer Contracts in Turkey (POA, 2019).

Construction sector is one of the most important and dynamic economic sectors of our country. In our country, the construction sector includes flat for land construction and construction and repair activities spanning years (MNE, 2011). Construction and repair activities spanning years cover more than one calendar year. The market value is affected by many factors such as changes in payment plan, commitment times, disasters, government attitude, company

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performance and investment considerations due to the activities of the companies traded in the construction sector. As there are many factors affecting the market value of the companies, many factors are involved in the activities of the construction companies. In this study, the effects of market value on the results were examined by considering factors such as obtaining the final progress payment and extending the costs to years.

The general name given to all systematic and interrelated activities performed by using materials, equipment and workmanship in order to create a real estate is defined as “construction” (Ministry of National Education [MNE], 2008). Constructions is the plural of the word “construction”, which refers to the construction that has not yet been completed (MNE, 2008).

On the other hand, Aydın has defined construction as all the activities related to the building part of a real estate created by the use of materials and labour (Aydın, 2015). There is no definition of the word construction in the Zoning Law No. 3194, only the description of the concept of construction is included. According to the definition in the law “a structure is fixed and mobile facilities which include temporary or permanent, official and private underground and above-ground construction and their additions, alterations and repairs, on land and water.” In the Zoning Law No. 3194, the description of the term building entering into the structure is as follows: Buildings are structures that can be used on their own, covered and people can enter into, for people to sit, work, have fun or rest or worship, and for the protection of animals and items (CL, 1985). In the Public Procurement Law No. 4734, the term construction is defined and is included as follows: Construction: All kinds of construction work such as buildings, highways, railways, highways, airports, docks, ports, shipyards, bridges, tunnels, subways, viaducts, sports facilities, infrastructure, pipe transmission lines, communication and power transmission lines, dams, power plants, refinery plants, irrigation facilities, soil improvement, flood protection and pickling, and related activities, installation, manufacturing, export, transportation, completion, major repair, restoration, landscaping, drilling, demolition, strengthening and assembly activities and similar construction activities (Public Procurement Legislation, 2002).

The construction work taking less than one year includes the types of construction started in the same year and completed and delivered by the end of the year. According to Gümüş (2015), construction, which is not completed over the years, is referred to as contracting work. If the duration of the construction contracting and repair activities covers more than one year, it is defined as the contracting and repairing work spanning years. (Aydın, quoting from Şenlik 2013, 2015: 4). According to Akça (2016), these activities are defined as construction, earthwork, dams, roads, bridges, tunnels, subways, contracting and repair work, which are carried out under contract, based on a contract and lasting more than one year in duration (Akça, 2016). The completion of the construction activities and the completion of the production are important in two aspects. It is the determination of cost by taxation and the determination of profit and loss from the work.

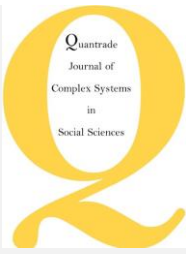
In the completion of the construction activities, it is determined that the construction is extended to years or months, considering the year of commencement and end of construction. The construction activities of the months are completed within a period and the tax is calculated by calculating profit-loss for that period. In construction activities, if the work is completed in the year it is started, general provisions should be applied and taxed within that year. For example, if work was started in January 2018 and finished in 2018, this work is not considered as construction activity extending to years, and earnings should be taxed as earnings for the relevant year (Selimoğlu, 2011). In construction activities extending into the years, the subject of taxation differs from other construction types as well as construction and repair activities that span months. This is done in the year that the work is completed in construction activities that extend into years. Article 42 of the Income Tax Law No. 193 contains the following provisions:

*“The profit or loss from construction and repair activities that span more than one calendar year is determined at the year in which the work is completed, and all of them are counted as income of that year and shown in the declaration of the year in question. Taxpayers, in cases covered by this article, are obliged to indicate the revenues and expenses of each construction and repair work in a separate book or in separate pages of the books they keep, and to submit their declarations by the evening of the fifteenth day of March of the year following the calendar year in which the activities are completed. And according to Article 94, the company is required to make a withholding cut of 3%*

for each payment made to the subcontractor.” (INCOME TAX LAW, 1960).

As stated in the Law, it contradicts the principle of periodicity, which is the basic concept of accounting in construction activities that span years. Taxes are not calculated for each period and the taxes calculated in the year the work is completed must be paid on the required dates in the following year.

In paragraph 1 of Article 94 of the Income Tax Law, who are obliged to withhold tax is stated, and in paragraph 3 of the same law article, “there is a provision stating that 5% income tax will be withheld from the amounts paid to those who do these activities (including institutions) within the activities covered by Article 42.” (ITL, 1960).



Profit is calculated by subtracting the costs incurred in the same period from the income obtained in a certain period. In construction work, the calculation of profit differs from that of other businesses, especially since the construction and repair activities that span years take a long time. There are two methods for determining the profit in construction activities: (Tosunoğlu and Cengiz, 2018).

- Percentage of Completion Method
- Completion Method

According to the completion method, contract revenue is matched with the costs incurred until reaching the targeted completion stage, and it requires that the work in question be completed in order to record income, costs and profit or loss. This is the reporting of income, expense and profit of the completed work. The Percentage of Completion Method, on the other hand, is based on the fact that in the construction and contracting activities that span years, the percentage of completion of income and earnings occurs as the work progresses in a certain way (Epstein and Jermakowicz, 2010: 289).

According to Aydın (2015), it is accepted that profit-loss occurs during the phases in which the construction work is progressing. The percentage of completion method allows the calculation of profit and loss before construction activities are completed.

When construction and repair contracts spanning years can be reliably estimated, the revenue and expenses of the contract will be considered as income and expense according to the completion phase of the contract activity (Gümüş, 2015).

The percentage of completion is calculated by dividing the costs incurred to date by the estimated cost specified in the total contract (Aydın 2015). In this method, the following formula is used (Şen, 2012).

- Percentage of Completion (Ratio) = Actual Cost / Estimated Contract Cost

If the company wishes, contract costs and contract revenue can be calculated with the help of the percentage of completion as a result of this formula.

- Term Contract Revenue = Total Contract Price x Percentage of Completion
- Term Contract Cost = Estimated Total Contract Cost x Percentage of Completion

In this method, it is assumed that profit and loss will occur if the work is completed or if there is very little left. According to the completion method, it is sufficient to determine the profit, the total cost of the work and the actual cost figures calculated from the progress payments received during the construction work process (Gencoglu and İşseveroğlu, 2018).

## Accounts Used For Construction Contracting And Repair Activities Spanning Years In A Uniform Chart Of Accounts

In the uniform chart of accounts (UCA) used in our accounting system, the costs of construction and repair progress payments spanning years are arranged in such a way that the costs of progress payments of more than one construction can be monitored separately.

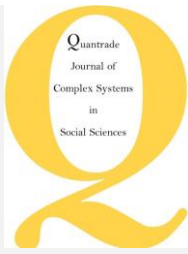
In the accounting process, the costs incurred are accumulated in 17-Construction and Repair Costs Spanning Years Account. The progress payments obtained are deposited in 35-Construction and Repair Progress Payments Spanning Years Account. When the work is completed, the total progress payments and expenses are transferred to the profit and loss account, and the total profit or loss is found (Aydın, 2015).

It is the process of long, complex and systematic work as a result of the activities of the construction companies. Progress payment is the sum of the transactions collected by the contractor company at certain times for the right earned in return for the service provided in accordance with the relevant articles of the contract signed between the employer and the contractor company. (Akgün, 2016).

Progress payments are divided into two (MNE, 2011)

- Temporary Progress Payments
- Final Progress Payments

### Temporary Progress Payment



These are progress payments made at intervals after the acceptance of the work. They are monitored in the Uniform Chart of Accounts by crediting 35-Construction and Repair Progress Payments spanning years.

### **Final Progress Payment**

These are progress payments made after the temporary acceptance of the work (Aydın, 2015). These are progress payment reports prepared in the light of the information obtained in the final progress payment construction work. They are organized at the end of the work (Akça, 2016). In case the construction activities are completed, and the final progress payment is obtained, 35-Years of Construction and Repair Progress Payments Spanning Years Account is debited, and the account is closed, and the income account is credited.

### **Short-Term Foreign Liabilities**

This is shown in the section of SHORT-TERM FOREIGN RESOURCES in CONSTRUCTION AND REPAIR PROGRESS PAYMENTS SPANNING YEARS ACCOUNT group in The Uniform Chart of Accounts. Businesses acquire assets from two types of sources, known as equity and foreign sources. It is shown in the balance sheet under three groups. This distinction helps many factors such as financial analysis, financing structure and determination of solvency of the business. Foreign resources are divided into two, which are short-term and long-term. Short-term borrowings, which are used synonymously with debt, cover liabilities less than one year, which the company uses to finance its assets and other needs. Uniform chart of accounts is divided as follows (Acar, 2013)

### **UCA 35 Construction and Repair Progress Payments Spanning Years Account Group**

This is shown in the Uniform Chart of Accounts in the 3\*\* Short-Term Foreign Resources Section of the 35\* Construction and Repair Progress Payments Spanning Years account group. Construction Repair Progress Payments Spanning Years with the code 350-357 in the chart of accounts as 350, 351, 352, 353, 354, 355, 356, 357 were given in the short-term foreign resources section to allow separate follow-up of each construction carried out in the construction activities.

### **Construction and Repair Progress Payments Spanning Years Account Group Operation and Its Relation with Other Accounts**

The accounting period in construction activities spanning years is not a calendar year, and the date of the start of construction and the calendar period in the contract in which the provisional acceptance is made are considered as the period until the completion of construction. This is expressed in parallel accounts as construction activities costs and progress payments. 17- Construction Repair Costs Spanning Years Account and 35- Construction and Repair Progress Payments Spanning Years work reciprocally. The costs incurred are expressed in account codes between 170-177 in order to monitor each individual construction. The expenses related to the construction up to the completion of the construction activity are followed in these accounts. The day the construction ends, total expenses incurred with the related construction are credited to the 741- Reflection Account for Cost of Production of Services against the 17- Construction Repair Costs Spanning Years Account. It is then transferred to the 622- Cost of Goods Sold Account, which is the income statement account, and included in the financial statements of the construction company. Its operation in the progress payments accounts against costs is as follows: Advances and progress payments received at the time of the contract are shown as debts in the balance sheet. According to Yereli, profit or loss from construction work is calculated when the construction is completed and reflected to the income statement by using the completion method when accounted (Yereli, 2011).

That is, if the construction company operates in accordance with the Tax Procedural Law, it receives temporary progress payments on certain dates specified in the contract, and receives final progress payment at the end of construction and closes the accounts. According to TAS-11 (Turkey Accounting Standard), the estimated cost is determined after the guarantee is given in the construction contract. The percentage of completion of the work on the following dates is measured by division of expenses incurred in the period, from the time contract was made until then, by estimated cost.

### **Impact of Construction Repair Progress Payments Spanning Years Account Group on Micro and Macro Economy**

The construction sector is known as a comprehensive economic activity and is one of the most vital sectors of the economy. The activities in this sector are known as economic activities, including not only the construction of buildings but also infrastructure investments such as road, railway, air route, port, dam, bridges, etc. which have a great economic impact on the country. It is accepted that there is a close relationship between construction investments and economic growth. The construction sector plays an important role, especially in developing countries such as Turkey. Employment has been achieved through the development of the construction sector in our country, and it has had a high impact on value added and share in GDP.

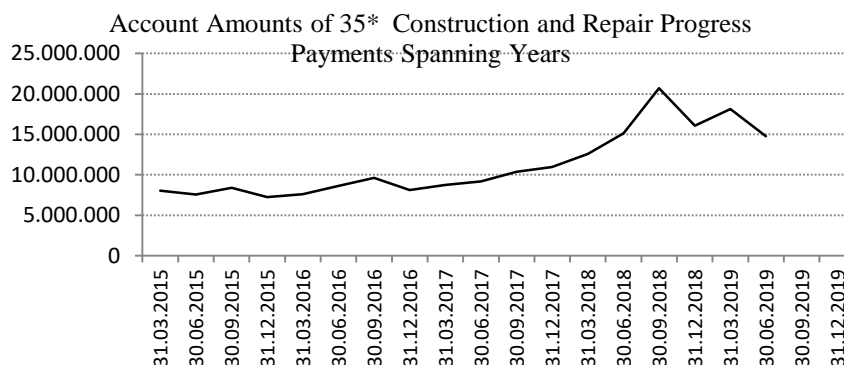
Turkey also has an importance place in the export of construction materials in the economy. The international contracting business is strikingly competitive in the international market. Building materials that provide input to construction sectors such as cement, rebar, ceramics, glass, paint, marble are competitive in terms of their quality worldwide. This situation has been the center of attention of many researchers and they have been interested in this closely. As a result of the research, it is concluded that the construction sector is closely related to economic growth. (Kaya, V. vd, 2013).

## Effect Of Construction And Repair Progress Payments Spanning Years Account Group On The Company Market Value (Total Progress Payment - Stock Value Comparative Analysis)

### ENKA

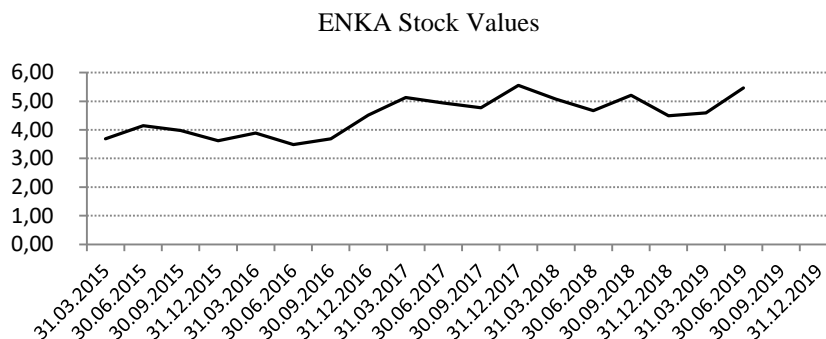
In our study, invoiced construction progress payment totals for the quarterly periods between 2015-2019 of ENKA which operates in the field of construction contracting, and the company's stock values in the same period were used to prepare a table; and their relations with each other were interpreted on the graph created using the data in the table. The stock value was taken from the figures published on the BIST-based website of the related company, and construction progress payment items were taken from the financial statements published in the Public Disclosure Platform (PDP).

**Figure 1:** Graph of ENKA Account amount by years



When the figure is analyzed, the data of the 35-Construction and Repair Progress Payments Spanning Years Account group (In the footnotes of the statement of financial position of the entity prepared in accordance with IFRS application, it is named as "Invoiced Progress Payments for Construction Activities") and the stock value data are compared. As a result of the information obtained from the graphs, despite the fluctuations in stock values in the period of 03.2015-06.2017, positive momentum was gained. There was a positive jump on 09.2018. In 09.2016 and 06.2019, there is a negative decline in the stock band when there is an increase in progress payment accounts. It is observed that all periods except these dates move in the same direction with fluctuations with each other.

**Figure 2.** ENKA Stock Value Graph by Years

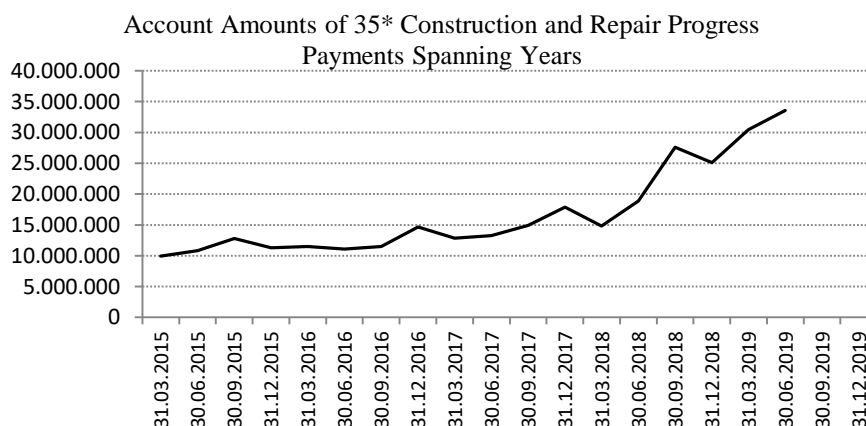


It is observed that there are developments in different directions and construction progress payments do not act in accordance with the sector conditions in the specified periods, and the difference is understood to be due to factors affecting other stock. However, when examined in detail, it is seen that the differences in variation are not remarkably high. In all other periods, when the progress payments of the enterprise for ongoing construction projects increase, the market value has increased, and the market value has decreased in the same manner when a decrease is observed.

## TEKFEN

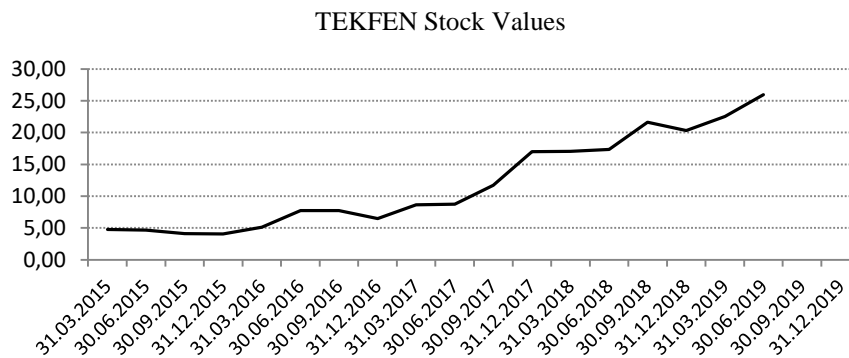
In our study, invoiced construction progress payment totals for the quarterly periods between 2015-2019 of TEKFEN which operates in the field of construction contracting, and the company's stock values in the same period were used to prepare a table; and their relations with each other were interpreted on the graph created using the data in the table. The stock value was taken from the figures published on the BIST-based website of the related company, and construction progress payment items were taken from the financial statements published in the Public Disclosure Platform (PDP).

**Figure 3. TEKFEN Account Figures by Years**





**Figure 4. TEKFEN Stock Values by Years**

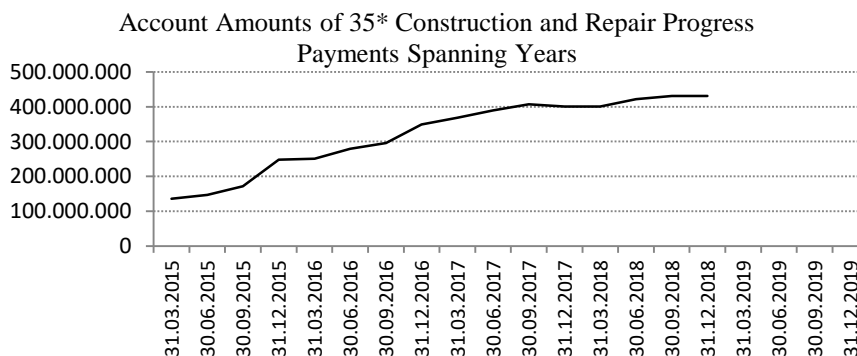


When the figure is analyzed, it is seen that the data of the 35-Construction and Repair Progress Payments Spanning Years Account group (In the footnotes of the statement of financial position of the entity prepared in accordance with IFRS application, it is named as "Invoiced Progress Payments for Construction Activities") and stock value data move in the same direction in all periods except the period 06.2015-03.2017. In the periods when developments are seen in different directions, it is seen that the construction progress acts in accordance with the sector conditions, and it is understood from the data that the parallel continuing band positively affects the stock value. However, when examined in detail, it is observed that there is no big difference in the amount of change differences. In all other periods, when the progress payments of the enterprise for ongoing construction projects increase, the market value has increased, and the market value has decreased in the same manner when a decrease is observed.

## YEŞİL YAPI

In our study, invoiced construction progress payment totals for the quarterly periods between 2015-2019 of YEŞİL YAPI, which operates in the field of construction contracting, and the company's stock values in the same period were used to prepare a table; and their relations with each other were interpreted on the graph created using the data in the table. The stock value was taken from the figures published on the BIST-based website of the related company, and construction progress payment items were taken from the financial statements published in the Public Disclosure Platform (PDP).

**Figure 5. Yeşil Yapı Account Amounts by Years**

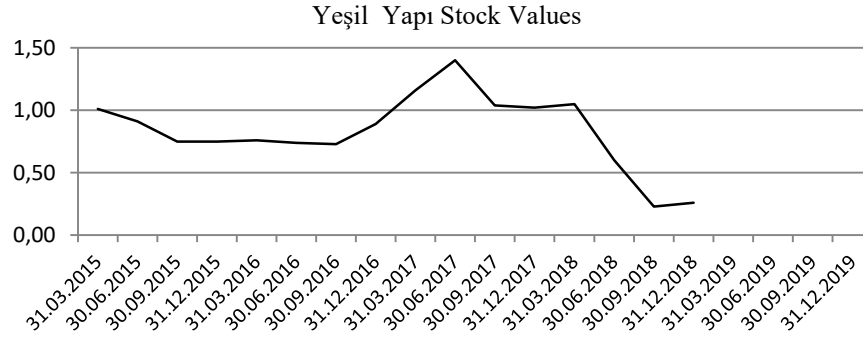


When the figure is analyzed, it is seen that the data of the 35-Construction and Repair Progress Payments Spanning Years Account group (In the footnotes of the statement of financial position of the entity prepared in accordance with IFRS application, it is named as "Invoiced Progress Payments for Construction Activities") and stock value data move



in the opposite directions in all periods except the period 12.2016-09.2017. In 06.2017, there was a positive jump in stock value, and this is expected from companies in the construction sector. In the periods in which developments in different directions are seen, it is observed that the construction progress payments did not act in accordance with the conditions of the sector. However, when analyzed in detail, it is understood that the sudden change differences between the periods 03.2018-09.2018 are caused by other factors affecting the stock.

**Figure 6.** Graph of Yeşil Yapı Stock Values by Years



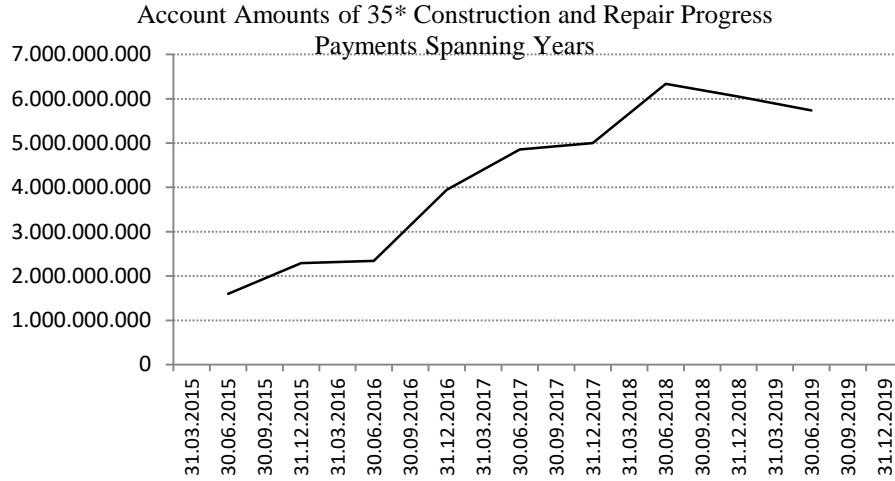
## YDA

In our study, invoiced construction progress payment totals for the quarterly periods between 2015-2019 of YDA, which operates in the field of construction contracting, and the company's stock values in the same period were used to prepare a table; and their relations with each other were interpreted on the graph created using the data in the table. The stock value was taken from the figures published on the BIST-based website of the related company, and construction progress payment items were taken from the financial statements published in the Public Disclosure Platform (PDP).

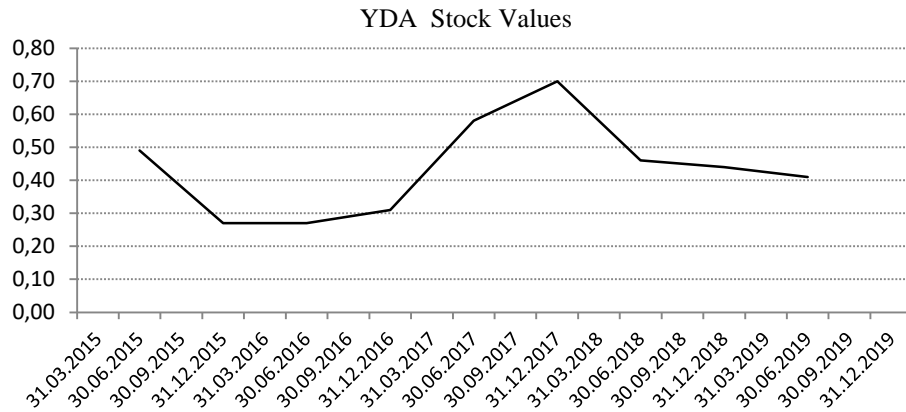
When the figure is analyzed, it is seen that the data of the 35-Construction and Repair Progress Payments Spanning Years Account group (In the footnotes of the statement of financial position of the entity prepared in accordance with IFRS application, it is named as "Invoiced Progress Payments for Construction Activities") and the stock value data are opposite to the account values and stock value band in the period of 06.2015-06.2016. In the period 12.2017, the stock value gained positive momentum in proportion to the account amount.

Between 12.2017 and 06.2018, there is a decrease in the value of stocks, and this is due to the decrease in the account amounts on the same dates. On the other hand, the fact that the stock values moving in opposite directions with the account amounts on 06.2015-06.2016 was found to be another factor affecting the market value. It is seen that construction progress payments act in accordance with sector conditions. However, when examined, the differences in the change decrease remarkably. In all other periods, when the progress payments of the enterprise for ongoing construction projects increase, the market value has increased, and the market value has decreased in the same manner when a decrease is observed.

**Figure 7.** Graph of YDA Account Amounts by Years



**Figure 8.** Graph of YDA Stock Values by Years

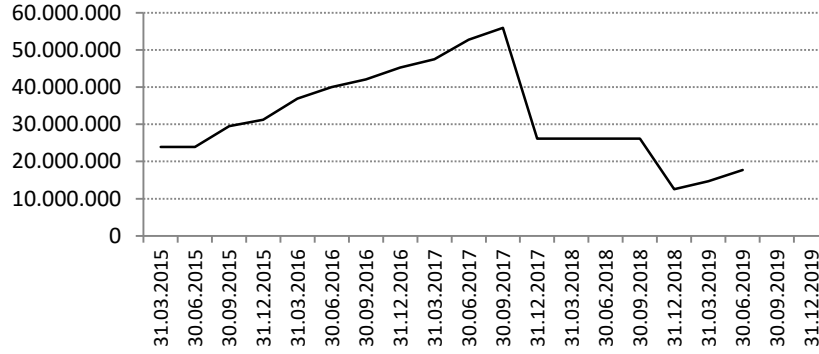


## YAYLA ENERJİ

In our study, invoiced construction progress payment totals for the quarterly periods between 2015-2019 of Yayla Enerji, which operates in the field of construction contracting, and the company's stock values in the same period were used to prepare a table; and their relations with each other were interpreted on the graph created using the data in the table. The stock value was taken from the figures published on the BIST-based website of the related company, and construction progress payment items were taken from the financial statements published in the Public Disclosure Platform (PDP).

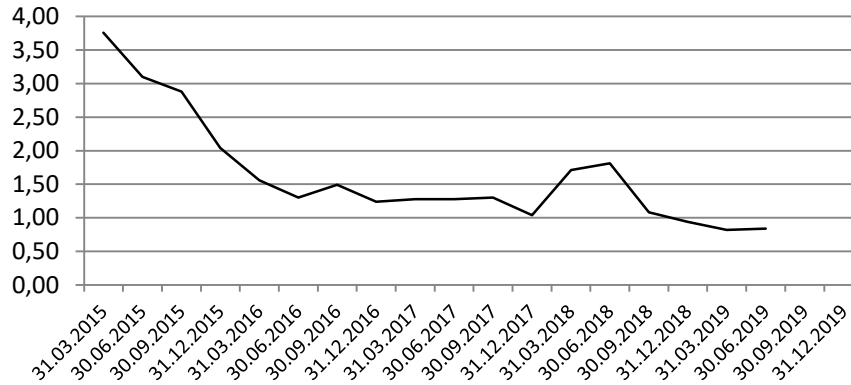
**Figure 9. Yayla Enerji Account Amounts by Years**

Account Amounts of 35 \* Construction and Repair Progress Payments Spanning Years

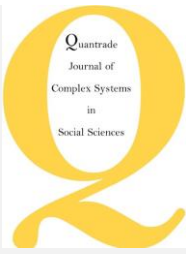


**Figure 10. Yayla Enerji Stock Values by Years**

Yayla Enerji Üretim Turizm ve İnşaat Stock Values



When the figure is analyzed, it is seen that the data of the 35-Construction and Repair Progress Payments Spanning Years Account group (In the footnotes of the statement of financial position of the entity prepared in accordance with IFRS application, it is named as "Invoiced Progress Payments for Construction Activities") and stock value data and account amounts moved at the same rate in the period of 12.2017-12.2018. Except for these periods, it is observed that they move in different directions with each other in all periods. In the periods when developments in different directions are observed, it is seen that the construction progress payments do not act in accordance with the sector conditions, and the difference appears to be caused by other factors affecting market value.



## CONCLUSION

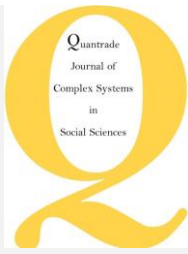
In this study, the effect of 35 construction and repair progress payments spanning years item, which is used especially in businesses whose construction activities last more than a year, was examined. There are several factors that affect the market value of businesses. A business operating in the field of construction contracting invoicing the account of construction progress payments and reflecting them in its financial statements means that the business has ongoing construction work in progress. This indicates that the business continues its activities in the field, tends to complete the activities it is carrying out, and that as the business progresses, the billed progresses payments are obtained. Therefore, this shows that the company has the capacity to undertake jobs in new markets and finish the work it receives. Construction businesses that can get new jobs and complete the jobs they receive have a strong reference in the market, and will continue to gain value thanks to the positive references they have. The brand value of a valued enterprise will increase. A construction company with high brand value will be able to open up to new markets and receive jobs under more favorable conditions, using the advantage of being a more reliable and well-known company in the new construction tenders to be held. And this will allow it to do its business more profitably.

On the other hand, the absence of construction progress payments of a company operating in the field of construction contracting means that there are no ongoing construction activities in the hands of that company. This shows that the activities of the company in its field are disrupted and that the company is having trouble completing the work in hand. Therefore, this situation shows that the company's capacity to receive and complete work in the markets is low. Construction companies that cannot receive new jobs and cannot complete their work have a negative value in the market, and will lose reputation due to negative references about them. The brand value of a business that has lost reputation will decrease. A construction company with a low brand value will have difficulty in bidding due to its more disadvantageous position in the new construction tenders to be held, and will be able to take the work under more adverse conditions. This will result in the company doing its business with less profit.

As a result of the study, it cannot be said that there is a direct positive relationship between 35\* Construction and Repair Progress Payments Spanning Years account group and the market value of the business considering the other factors affecting the market value. However, when other factors are ignored, if the progress payments increase, it is concluded that the company has a business in its hand and is active in its field and that its market value may increase, and in the light of the data used in our study, our view was supported.

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