

PROFIT RETURN IN CIVIL AVIATION AND FLEET INSURANCE: GAAP, FINANCIAL REPORTING AND TAX APPLICATIONS

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ABSTRACT

In the civil aviation market, unique insurance types are available. This market encompasses a small number of insurers who have the capacity to insure large fleet portfolios. Profit return is the portion of the insurance premium returned to the insured depending on the insurance contract. This paper examines the concept of profit return as used by civil aviation companies along with the scrutiny of accounting and tax applications implemented by Turkish civil aviation companies regarding aviation insurance premia. This work has particular implications on International Accounting Standards, Generally Accepted Accounting Principles (GAAPs) and Financial Reporting for a particular setting.

JEL: M40, M41, M48, M49

KEYWORDS: Recognition, Disclosure, International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs), Financial Reporting, Civil Aviation, Profit Return

INTRODUCTION

There are various types of insurances applicable in civil aviation depending on the requirements of different authorities. These include aircraft hull insurance, hull resistance, aviation hull war, terrorism risk insurance, spare parts, total loss insurance and financial liability insurance. *Hull insurance* secures the entire hull and equipment of an aircraft, regardless of the owner during flights, when landed, when moving or parked. *Exemption insurances* (as in the hull exemption) lower the limits of exemption. *Liability Insurances* secure the passengers, baggage, cargo and the third persons against losses and damages from the check-in procedure until the passenger leaves the apron. *Total Loss Insurance* provides insurances to be used in the extra premium payments that will be undertaken due to the rise in the premium rates in the following insurance periods when an aircraft becomes completely unserviceable. Finally, *Loss of License Pilot Insurances* covers pilots' financial commitments if their licenses are suspended within the framework of international regulations, either permanently or temporarily, for the purposes of medical reasons.

In the event that payments made for losses during the insurance period do not exceed a specific ratio of the premia paid, or to be paid, by the company which has purchased an insurance policy, the insurance company can return part of the paid premium back to the insured company. Alternatively, it can appropriate the undue premium given the insurance contract made between the two. This practice is called profit return. The subject of this paper is investigation of the concept of profit return as used by civil aviation companies and the examination of accounting and tax applications implemented by Turkish civil aviation companies regarding aviation insurance premia.

In the first section of this paper literature related to aviation insurance markets are reviewed. The second section explores the literature along with scope and framework. In particular, the legal framework

considering aviation insurances is investigated. In the third section, accounting and tax applications on aviation insurances are studied. In the fourth section an evaluation of the subject within the sphere of Turkish Accounting Standards (TASs) is presented. The fifth section discusses potential problems which might be encountered in the course of recognizing aviation insurance premia. Finally, the fifth section concludes this paper.

LITERATURE REVIEW AND BACKGROUND

The relevant literature is silent on the issue of profit return in the civil aviation and fleet insurances. There exists neither scholarly nor professional works to date. This paper aims to examine the subject of profit return in civil aviation and fleet insurances, given the context of generally accepted accounting principles (GAAP), financial reporting as well as tax applications. This paper is, to the best of our knowledge, the first scholarly investigation of these issues. Before delving into technical specifics this paper puts forth, we start with a discussion of the relevant prior studies.

Consideration of aviation insurance in the literature is not new. Holland (1927) discusses the evolving issue of aviation insurance. The scholar presents a history on insurance of transportation, the possibility of a single (catch-all) aviation insurance coverage, pricing, types as well as causes of losses covered in addition to the influence of protection on flying. He concludes the paper highlighting the critical importance and relevance of and a fast growing necessity for extensive aviation insurance policies to cover the immediate needs for the sector agents.

W. R. B. (1947) explores the relevance and importance of mandatory aviation insurance. The scholar advocates that aviation insurances are more than a must. He argues that protection of the public should be well provided and the level of compensation against the occurrence of the hazard itself should be kept at a reasonably decent level. The scholar further states that a rigorous set of regulatory mechanisms should be developed to mitigate risks involved. Enforcement of mandatory insurance policies would do indeed a good job of lessening the costs of having a system of damage control and management practices.

Tuan (1965) discusses the emergence and the evolution of aviation insurance in the U.S. He argues that a strong backup from the American insurance market and willingness to assume the underlying risks are among the leading factors in the insurance development. These factors are suggested to be contributing to the further advancement of the aviation industry and insurance businesses together.

Margo (1996) discusses several aspects of insurance in aviation finances. The scholar argues that since motives differ, financiers of aviation insurance business price the risks involved differently than the way the insurers do. Margo conjectures that insurance financiers might reap certain financial advantages on the right way to exploit the insurance deal. This entails asset protection as well as assurance of lease/loan payment flows. The scholar concludes that since the insurance market has a flexible structure and players in this market are eager to embed motives the financiers have, the existing dialogue between the financiers and the insurers would prove to be more intense than it is now.

Pricing risks and hence coming up with an accurate number to capture the right amount of compensation on aviation insurance are pretty demanding. It is suggested that, no matter what schemes of varying pricing and premia might be considered, insurance underwriters must fairly price the risks and consider all the possibilities involved. Among these are drivers leading to pricing differences as insurance/reinsurance and temporal dimensions with respect to the coverage of premia and the lag between incidence of loss and reimbursement of claims (Anonymous, 2006; Lane, 2005).

Lin and Chang (2008) study drivers underlying the aviation insurance business. They sample Taiwanese Airline Carrier enterprises. They set the degrees of hull and liability types of aviation insurance premia as

their dependent variable which is regressed on a broad vector of regressors. These regressors include fleet profile, operations, losses, flight crew performance and financial stability. Employing gray relation analysis (performance assessment) and risk analysis matrix (loss severity and frequency), the scholars find that two factors mainly determine the rates applicable to aviation insurances. These are the quantities of fatalities as well as the claims due from prior periods and the level of a given airline company's loss history. They further conjecture that the given factors not only guide pricing practices of risks associated with the damage potentiality and thereby the level of the compensation, but also the overall performance.

Mann (2009) investigates the finances of aviation activities as a source of capital. The author discusses the aviation financing market in light of a number of determinants. These involve (a) airlines, (b) aircraft lessors, (c) values underlying aircrafts, (d) EETC markets (Enhanced Equipment Trust Certificates), (e) debt structuring, (f) pooled lease securitizations which are alternate aircraft financing instruments, (g) export credit agencies (ECAs), and (h) the bank markets as premier financiers of capitals in the aviation industry. The bank markets are also suggested to be encompassing ExIm banks (Export-Import) as well. Mann further indicates that there will be arising many financing opportunities in the near future which are the probable expansions for instance in the level of (i) banks' lending capacities, (ii) guarantees to be offered by ECAs or ExIm and (iii) issuances to be led by EETC markets.

Flouris *et al.* (2009) examine some notable implications of recent developments in the aviation insurance industry business. They investigate market risk shared by the insurers, treatment of insurers on intentional violence acts, and risk pricing. They argue that many things in aviation insurance have changed following the 9/11 crashes, which mainly harmed the existing market stability, but also led to involving agents to redesign their insurance structures and layouts. The scholars advocate that pricing terms and conditions applied to the aviation insurance business have well adapted in the post-9/11 events-period. This closely implies that current aviation insurance industry is now working differently than the one before the 9/11 incidents, depicting a more conservative (risk-averse) yet prudential picture. The scholars conclude that players in the aviation insurance markets have an improved insurance oversight at the expense of a higher cost of coverage.

Jackson (2011) recently investigates prospects the aviation insurance businesses encapsulate. The author argues that reinsurers, insurance underwriters and the financial markets are all integrated in these businesses. He further advocates that this close linkage is one major reason accounting for the floating changes in the degrees of the risk pricing and therefore the premium costs.

Anderson *et al.* (2012) recently examine fraud of insurance in the aviation industry while presenting implications on liabilities and losses along with the considerations of catastrophic events like September 11. This is a fine case study. The scholars examine the case of insurance fraud connected to Fortress Reinsurance Corporation. They argue the given company has deceived its stakeholders in making them believe that they are financially safeguarded in the events of huge disasters. Following the September 11 occasions, it was realized that this was not the case. Due to this deception, the ruined stakeholders of Fortress had immediately filed legal proceedings against not only the company owners (insider shareholders) but also its auditor, which ranks in the big four at present.

Aviation Insurance Markets

An aircraft in a fleet is insured against different "aviation risks" under a compound policy which covers not only damages and losses to an aircraft but also damages and losses it would cause passengers and third parties. A single insurance company does not have the financial resources adequate to insure a large airline company. Except for countries where laws require regional insurance, a great deal of insurers and reinsurers participate in each insurance stage (Hayes *et al.*, 2010).

Lloyd's market in London is a worldwide recognized aviation insurance market. Although there are other markets such as the German Market, French Market, US Domestic and GAUM, most of the markets with the exception of Lloyd's are relatively small (Chappell, 2010). Small markets are not capable of assigning lead underwriters for companies with large fleets. This brings forth the risk of incomplete placement. It is also important to note that in the insurance market, reinsurers who guarantee compensation for damages are called *underwriters*. However, the reinsurers who make transactions in markets other than Lloyd's can also participate in the placements performed at Lloyd's. Although there are many companies registered in the Lloyd's market, only a small fraction happen to be capable of reinsuring the companies with high fleet values (Hayes *et al.*, 2010).

The Lloyd's market has a unique working method such that underwriters in this market do not deal with airline companies on financial issues such as premia and compensations. Therefore, bargains for premia and compensations are carried out by means of financial intermediaries called brokers who are authorized by airline companies to do so (www.lloyds.com, 2010). Airline companies struggle to achieve scale economies and thus to pay lower premia (a) by incorporating the fleets of all the companies under the roof of airline associations such as Star Alliance and (b) by creating huge portfolios and hence increasing their marketing power.

In calculating the premia for insurance policies various criteria such as: (a) the value and age of the fleet, (b) estimated number of passengers, (c) number of departures, (d) passenger gain per kilometers, (e) number of seats, (f) premium damage statistics (history) of the company in the last few years, (g) premium trends in aviation insurance and (h) risk coefficient defined by the underwriters for airline companies are all taken into consideration. Therefore pricing is a sophisticated process.

Profit Return in General

Profit commission is a double-edged sword. When exercised properly it provides the opportunity for a consistent and profitable partnership by allocating profit and risk between the risk holder and the insured. Profit commission is a contingent commission defined over the profitability of the portfolio included in the insurance line. The payment of a profit commission is made from the party who undertakes the risk, or from the insurer (the reinsurer, insurer or the insurance agent in general) to the producer/distributor (an insurer, insurance agent, broker or the agency in general). It is also known as profit share commission, bonus commission or sliding scale commission. Different from the other flat commissions (that are collected with the sale or renewal of a single policy) profit commissions are calculated over the financial results of a group of policies (Weaver, 2010).

In each profit commission agreement the following arrangements can be made depending on the nature of the agreement (Weaver, 2010): (a) the parties to the agreement, (b) the subject of the business and whether there is a single pool or multiple sub-pools, (c) the term of the agreement, (d) how the profit commission will be calculated and paid, (e) whether the profit commission will be paid at once or in installments, (f) whether there will be a minimum portfolio or a profitability threshold before the profit commissions begin to be paid, (g) whether the losses can be compensated with the future profit commissions and if it is so agreed the period for its validity, (h) the conditions of termination and the profit commission payments after the termination of the agreement, (i) arbitration arrangements, and (j) profit commission calculation formula.

In the profit commission formula there may be a great number of variations – there is not a single best and correct definition for it. However the following formula is widely applied (Weaver, 2010): $X\% \cdot (P - C - E)$. Therein, $X\%$: profit rate to be paid to the party who is to receive profit commission (this rate may be contingent or variable); P : Premia earned; C : Payments for the incurred losses (which encompasses the

provisions reserved for such losses), and *E*: Expenses (which encompasses all types of costs, taxes, financial expenses, etc.).

Legal Framework

The responsibilities of carriers in civil aviation (on the issues of the passengers, baggage and cargo) remain settled back in the 12 October 1929 agreement called the Warsaw Convention. Although the main text has been amended, the convention listed the financial responsibilities of the airline companies and mentioned their obligations to carry insurance.

According to article 15 of the 03.06.2007 dated and 5684 dated Insurance Law vehicles used in civil aviation (excluding the exceptions) should be insured by insurance agents located within the borders of Turkey and are in service in Turkey. According to the aforementioned article: “Persons resident in Turkey are obliged to have their insurable interests insured by the insurance companies carrying out business in Turkey. However when such persons buy credit for aircrafts, ships or helicopters they can apply for insurance abroad providing that the scope of the insurance be limited with the amount of foreign debt and until the foreign debt is paid.” Legal basis of the insurance types used in civil aviation in Turkey are provided below:

a-Hull Insurance: Although it is not compulsory for civil aviation companies to purchase hull insurance they are required to buy hull insurance for the aircrafts bought through leasing, pursuant to the articles 14 and 17 of the 28.06.2005 dated and 3226 numbered Law on Financial Leasing. In the abovementioned articles it is stated that “the leaseholder is responsible for the losses and damages accrued within the term of the agreement. This responsibility is limited with the amount that cannot be met by the insurance paid... The leasing company is obliged to have the good in his property subject to the lease insured for the period of the agreement. The leaseholder shall pay the insurance premia.” Besides, there are also provisions in the financial leasing agreements which require aircraft hull insurance.

b-Liability Insurance: In the articles 132 and 138 of the 19.10.1983 dated and 2920 numbered Turkish Civil Aviation Act it is stated that “carriers authorized to perform domestic and international carriage of passengers, freight and mail are required to have an insurance against financial liability within limits determined at least according to the principles of article 124, covering compensation claims for damages that may occur under the transportation contracts... The insurance contract to be executed by carriers operating in domestic and international routes and the risks it covers shall be approved by the Ministry of Commerce taking into account international standards and the opinion of the Ministry of Transportation and Communications. Aircrafts not complying with the insurance requirement prescribed by this article shall be prohibited from flight by the Ministry of Transport and Communications... Operators of Turkish and foreign civil aircraft to fly in Turkish airspace are required to execute an insurance contract as surety for damages that may be caused to third persons. Aircrafts not complying with the insurance requirement prescribed by this article shall be prohibited from flight by the Ministry of Transport and Communications.” It is also required to execute financial liability insurance contracts according to financial leasing agreements and civil aviation regulations.

c-Exemption Insurance: There is no a legal arrangement which necessitates exemption insurance; however it is possible to increase the level of compensation to be met by insurance companies through exemption insurance. The next section generously presents the accounting (financial reporting) along with the tax implementations on insurance premia and profit return subject-matters. The steps on financial recognition/reporting transcending the incurring and payment of the insurance premia as well as the accrual and receipt of the profit returns are presented in detail therein.

ACCOUNTING AND TAX APPLICATIONS

Although it is legally required that companies execute the covenants of insurance when carrying out business in Turkey, companies are compelled to buy foreign insurance policies. This is mainly because no insurance system to execute direct insurance transactions is available in Turkey. This is likely because of expensive policy coverage. Payments to foreign insurance companies are made by means of an established domestic insurance company. When payment is made to the established insurance companies in Turkey, Banking and Insurance Transactions Tax is included in the payment and the established company transfers the payment collected with a certain amount of commission to the foreign insurance company. It is stated in article 28 of the 23.07.1956 dated and 6802 numbered Expenditure Tax Act that the Banking and Insurance Transactions Tax is money banks and insurance companies receive under any title either in cash or in account resulting from transactions they have performed. This happens regardless of the methods they would have applied.

Premium payments prescribed in aviation policies which are arranged to cover a calendar year (between January and December) are generally made in periods of 3 months. One fourth of 90% of the amount of the insurance premium which is calculated depending on estimated values is paid in advance to the insurance company. The period of insurance is one calendar year in application. Agreement procedures with the foreign company may only be concluded a few months after the insurance period ends. Under some conditions, determination on the cost of damage might take long periods of time. The appropriate accounting entries are as follows:

180 – Prepaid Expenses for Future Months Account (dr.)
 320 – Accounts Payable Account (cr.)

Description: Become indebted for ¼ of the insurance premium before the insurance period begins

320 – Accounts Payable Account (dr.)
 102 – Banks Account (cr.)

Description: Payment of the ¼ of the insurance premium before the insurance period begins

740 – Expenses of Provision of Service Account (dr.)
180 – Prepaid Expenses for Future Months Account (dr.)
 320 – Accounts Payable Account (cr.)

Description: Charges for the premium payment to be made in April and advance payment records for the premia of May and June

320 – Accounts Payable Account (dr.)
 102 – Banks Account (cr.)

Description: Payment of the premia of April, May and June

740 – Expenses of Provision of Service Account (dr.)
 180 – Prepaid Expenses for Future Months Account (cr.)

Description: Charges for the premium payments to be made in May and June

The abovementioned records are also applicable for the period between July and December. The insurance premium paid by the airline company within the insurance period and the agreed amount of premium to be

paid at the end of the period is compared for the purposes of reconciliation. Should the amount paid during the insurance period be less than the due amount (considering that the fleet value has not increased, 90% of the estimated premia of some policies is paid during the period which in return brings forth the opportunity of extra payment at the end of the period), one would have the following records:

740 – Expenses of Provision of Service Account (dr.)
 373 – Provision for Expense Accruals Account (cr.)

Description: Though not finalized yet, recording the residual insurance premium in the related period according to the requirements of periodicity

373 – Provision for Expense Accruals Account (dr.)
 320 – Accounts Payable Account (cr.)

Description: Becoming indebted for the payment of the residual insurance premium

320 – Accounts Payable Account (dr.)
 102 – Banks Account (cr.)

Description: Payment of the residual insurance premium

120 – Accounts Receivable Account (dr.)
 649 – Other Ordinary Income in relation to The Business Activity and Profit Account (cr.)

Description: Taking back the overpaid amount of insurance premium

102 – Banks Account (dr.)
 120 – Accounts Receivable Account (cr.)

Description: Collection of the overpaid premium

If it is found that the amount of premium paid during the insurance period is more than the amount of insurance premium to be paid, one would have the right above-presented records. In summary, when making agreements about insurance premium payments to be made at the end of the period, the amount calculated at the beginning of the period is compared to the difference to be figured out with the calculations made after the insurance period. If the paid amount is determined to be low it is paid to the insurance company. Should it be considered overpaid it is returned to the insurance holder. After these procedures are finalized the profit return operation is performed if the amount of the damage/premium remains under a certain rate (critical mass). The accounting records are as follows:

120 – Accounts Receivable Account (dr.)
 649 – Other Ordinary Income Related to The Business Activity and Profit Account (cr.)

Description: Accounting record of the profit return

102 – Banks Account (dr.)
 120 – Accounts Receivable Account (cr.)

Description: Collection of the profit return

TURKISH ACCOUNTING STANDARDS (TASs)

TAS 37: “Provisions, Contingent Liabilities and Contingent Assets” Standard

We know that TASs are extensions of International Accounting Standards (IASs) alongside with concepts derived from their implementations to Turkey –International Financial Reporting Standards (IFRSs). Profit commissions, when examined in terms of the Turkish Accounting Standards, may be dealt with under TAS 37, the “Provisions, Contingent Liabilities and Contingent Assets” standard. According to this standard a contingent asset is “a possible asset that arises from past events and whose existence would be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.” The following issues are indicated in the related sections of the same standard:

An entity shall not recognize a contingent asset on its financial statements (Paragraph 31).

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity (Paragraph 32).

Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is therefore appropriate (Paragraph 33).

A contingent asset is disclosed, as required by paragraph 89, where an inflow of economic benefit is probable (Paragraph 34).

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent assets (Paragraph 35).

Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period (as of the balance sheet date), and where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 36-52 is suggested (Paragraph 89).

It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising (Paragraph 90).

Where any of the information required by paragraphs 86 and 89 is not disclosed because it is not practicable to do so, that fact shall be stated (Paragraph 91).

Briefly TAS 37 states that if the inflow of contingent asset to the entity is probable that fact should be disclosed in the financial statement while the profit returns should be included in the financial statements from the beginning of the reporting period. Again, as can be understood from the explanations provided above, if it has become virtually certain that an inflow of economic benefits will arise, the change should be recognized in the financial statements.

TAS 10: “Events after the Reporting Period” Standard

Recognition of possible effects of profit return, which is to be agreed at the time of the signing of the contract, in or out of the financial statements not only demonstrates the size of the expected damages or the condition of no-claim, but also plays an important role in terms of the time such damages occurred. TAS 10 states that:

An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting period (Paragraph 10).

If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information (Paragraph 19).

In some cases, an entity needs to update the disclosures in its financial statements to incorporate the information received after the reporting period, even when the information does not affect the amounts that it recognizes in its financial statements (Paragraph 20).

If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period: (a) the nature of the event; and (b) an estimate of its financial effect, or a statement that such an estimate cannot be made (Paragraph 21).

The reporting period indicated above is meant to take effect as of the balance sheet date. Briefly in the TAS 10 it is stated that no adjustment shall be made in the financial statements for the non-adjusting events after the reporting period. However, considering that the non-adjusting events are important they should be disclosed in the financial statements as in the example of the total loss of an aircraft within the insurance period.

There is another important standard worth mentioning, i.e. TAS 32. TAS 32 is entitled: “Financial Instruments: Presentation” Standard. This standard states that a financial asset and a financial liability be offset, and the net amount be presented in the statement of financial position (balance sheet) if and only if, an entity: (a) currently has a legally enforceable right to set off the recognized amounts; and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously... financial assets and financial liabilities are rather presented separately from each other in line with their unique characteristics as either economic resources or financial obligations of the entity (Paragraphs 42 and 43).

POTENTIAL PROBLEMS

The problems civil aviation companies might encounter in the recognition of the aviation insurance premia may be listed as follows: First; contrary to TAS 37, non-disclosure of the profit returns [in balance sheet disclosures] that are in the status of contingent assets when they remain likelihood as well as non-recognition of the profit returns in the financial statements when their realization is highly likely. Second; contrary to TAS 10, failure to make the necessary disclosure in a timely manner regarding the changes that might occur after the reporting period meaning the balance sheet date.

And third; contrary to TAS 32 again, in the agreements made between the insurance company and the airline company at the end of the reporting period if it is determined that the airline company may receive profit return after the amount of the premium to be paid by the airline company is figured out and when the “amount of damage / amount of premium” rate gets at a certain value, making the mutual settlement on the

gross basis instead of net basis. Since this would decrease the assessment of the Banking and Insurance Transactions Tax it would lead to tax loss.

CONCLUDING COMMENTS

In the civil aviation market, unique insurance types are available. This market encompasses a small number of insurers who have the capacity to insure large fleet portfolios. Profit return is the amount of the insurance premium returned to the insured depending on the insurance contract. This paper examines the concept of profit return as used by civil aviation companies along with the scrutiny of accounting and tax applications implemented by Turkish civil aviation companies regarding aviation insurance premia. This is an original research in the area as the relevant literature is silent on this subject.

This paper has special implications on (International) Accounting Standards, Generally Accepted Accounting Principles (GAAPs) and Financial Reporting for a particular setting. In order to satisfy the main objective, we provide a generous presentation of the literature. In exploring the literature a broad picture of background was also given. Thereafter, accounting and tax applications were discussed. That section was specifically attributed to showing the financial recognition and reporting implementations that results from the incurring and payment processes of insurance premia as well as the accrual and collection processes of profit returns.

We note that even though it is legally obligated, for firms to execute insurance contracts with firms carrying out business in Turkey, enterprises are compelled to buy foreign insurance policies. This was suggested because no insurance system to perform direct insurance transactions is available in Turkey. It has also been stated that payments to foreign insurance companies are made by means of an established domestic insurance company. Once a payment is made to the established insurance companies in Turkey, Banking and Insurance Transactions Tax (BITT) would be involved within the payment and the established company would transfer the payment it has collected with a certain amount of commission to the foreign insurance company. The foreign insurance company is the one writing the main insurance contract.

In the above discussions, it has been advocated that when construing agreements about insurance premium payments to be made at the end of the period. The amount calculated at the beginning of the period would be compared to the difference after the insurance period. If the paid amount is low it would then be paid to the insurance company. Should it be overpaid it would then be returned to the insurance holder. Once these procedures are finalized, profit return operations would be performed.

Following the discussions on accounting and tax implications, applicable Turkish accounting standards (TASs) were technically investigated. That section is particularly relevant as TASs are extensions of International Accounting Standards (IASs) that lead performance and oversight of International Financial Reporting Standards (IFRSs). These investigations entailed: (a) TAS37 which is a Standard stipulating the Provisions, Contingent Liabilities And Contingent Assets, (b) TAS10 which is a Standard stipulating the Events After The Reporting Period, and (c) TAS32 which is a Standard regulating the Financial Instruments. In this, among the others, it has been suggested that once it has become virtually certain that an inflow of economic benefits would arise, the change should then be recognized in the corporate financial statements. It has also been proposed that since non-adjusting events prove to be of importance they should be disclosed in corporate financial statements as is the case of the total loss occurrence of an aircraft within the insurance period.

This paper has also discussed the possibilities of some specific (firm or industry wise) problems civil aviation companies might encounter especially in the course of financial recognitions of the aviation insurance premia. Despite the law and spirit of TAS37, it might yet be possible to have a (a) non-disclosure of the profit returns -in balance sheet disclosures- that are in the status of contingent assets when they

remain probable *as well as* (b) a non-recognition of the profit returns in the corporate financial statements when their realization is even highly likely. Second; despite the law and spirit of TAS10, there might happen a failure to make the necessary disclosure in a timely manner regarding the changes that might occur after the reporting period (i.e. the balance sheet date). Third; despite the law and spirit of TAS32 again, in the legally binding deals made between the insurance company and the airline company at the end of the reporting period it should be determined if the airline company may receive profit return. This is done after the amount of the premium to be paid by the airline company is identified and when the amount of damage/amount of premium rate gets at a certain value. Among the other advantages, it would decrease the value of the Banking and Insurance Transactions Tax, which in turn implies a tax loss by definition.

All the above points highlight the significance of recognition and disclosure practices. They combined to conclude that profit return should be better considered as having the status of a contingent asset. For this reason, it is required to be disclosed in the corporate financial statements and at times when its payment becomes virtually certain it has also to be recognized in the corporate financial statements. The former and latter requirements might be respectively called the disclosure and recognition obligations. Moreover, in the case that events that occur after the reporting period do not require any amendment prove to be (significantly) important they should also be disclosed in the financial statements. When the premium payment and profit return is to be made in the same period collection on account would not be appropriate according to present accounting and tax regulations.

Last but not least, this paper is not without its limitations. First, this study is a country-specific investigation where the structure of aviation industry as well as the insurance and taxation practices among the others is unique. This might give a rise to impairment of generalizability of our results and implications worldwide. Perhaps the backbone of this scholarly investigation relies rather on the international accounting standards and principles (i.e. IASs and IFRSs) and thus retains generalizability. Thanks to the standardization, we believe that once our examination is replicated in some other outlets, similar results as well as implications are likely to obtain to a significant degree.

Opportunities are available for future studies in this area. Even though the examinations made throughout this study are specific and technical, it would be interesting to see if the same context is replicated in another venue with differing reporting, accounting and taxation regimes and practices. The probable results would vary if the given venue implements its own GAAPs rather than an internationally-driven-GAAP such as that of IASs and IFRSs. The results and implications would also read differently if the given venue has a completely different kind of insurance structure.

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ACKNOWLEDGEMENT

The authors generously thank and appreciate the anonymous reviewers and the editor for their very helpful and invaluable comments/suggestions.

The opinions in this paper, one way or another, do not reflect those of Turkish Airlines Company by any means. They do reflect solely those of the persons authoring this paper.

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