

**23-25 APRIL**

ONLINE MEETING

# ISAF 2021



**VI. INTERNATIONAL SYMPOSIUM  
ON ACCOUNTING AND FINANCE**

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*VI. International Symposium on Accounting and Finance  
ISAF 2021*



**VI. INTERNATIONAL SYMPOSIUM ON ACCOUNTING  
AND FINANCE  
COHOSTED BY MUFAD  
and  
BURSA ULUDAG UNIVERSITY,  
FACULTY OF ECONOMICS AND ADMISINISTRATIVE  
SCIENCES**

**VI. INTERNATIONAL  
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AND FINANCE  
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**PRESENTATION**

Dear Participants,

We left behind the VI. International Symposium on Accounting and Finance. During the symposium, valuable papers were presented and we listened to the speeches of our valuable invited lecturers, the interest of the participants lasted until late hours for three days and we received very good feedback. On the 1<sup>st</sup> day Head of The International Public Sector Accounting Standards Board Thomas Müller-Marqués Berger, 2<sup>nd</sup> day PhD. Mehmet KOÇDEMİR and 3<sup>rd</sup> day PhD Irum SABA was the main sesison speakers. Also Assoc. Prof. Zafer SAYAR is among our invited speaker. Vice President of the Public Oversight Accounting and Auditing Standards Institution, Derviş Altınok, Başkent University faculty member Prof. Dr. Nalan Akdoğan, Istanbul Commerce University faculty member Prof. Dr. Necdet SENSOY and Anadolu University faculty member Prof. Dr. Seval Kardeş Selimoğlu contributed with their presentations as our invited speakers on the PANEL. Among the papers on new and interesting accounting research presented at this Symposium, there were presentations by faculty members from Clarion University in the USA and a total of 66 papers prepared by faculty members and accounting professionals from 45 different universities in our country. The proceeding book prepared with the ISBN number in which these papers are included, was published on the Symposium website at <https://mufadisaf.com> and it was provided to the authors of the papers by e-mail. In addition, the studies that were later revised and turned into articles were published in the special issue of our Association's periodical "Journal of Accounting and Finance" by repeating the double-blind review process.

Endless thanks to our invited speakers who agreed to share their knowledge with us, and also to our valuable participants who honored us by providing a wide participation with us through online presentations.

I would like to express my gratitude to our University, which I am proud to be a member of, who provided all kinds of support for the realization of this Symposium, to the members of the scientific committee who evaluated the papers with their meticulous work, to the members of the organizing committee who made great contributions to the Symposium and took part in all studies, to the speakers and participants who made the Symposium meaningful. On behalf of myself and MUFAD (AAFA), I would like to express my best wishes that the symposium has achieved its purpose.

On Behalf of The Association of Accounting and Finance Academicians-AAFA's

Symposium Convenor

Prof. Ümit GÜCENME GENÇOĞLU

## SUNUŞ

Sevgili Hocalarım,

23-25 Nisan 2021 tarihleri arasında ONLINE olarak düzenlenen VI. Uluslararası Muhasebe ve Finans Sempozyumu'nu geride bıraktık. Sempozyum boyunca çok değerli bildiriler sunuldu ve çok değerli davetli hocalarımızın konuşmalarını dinledik, katılımcılarının ilgisi üç gün boyunca akşam saatlerine kadar sürdü ve çok iyi geri dönüşler aldık. Sempozyumda birinci gün, Uluslararası Kamu Sektörü Muhasebe Standartları Kurulu (IPSASB- The International Public Sector Accounting Standards Board) başkanı Thomas Müller, ikinci gün Dr. Mehmet Koçdemir ve üçüncü gün Dr. Irum Saba, ana tema konuşmacısı olarak yer aldılar. Ayrıca davetli konuşmacılarımız içinde Doç. Dr. Zafer Sayar ile, Sempozyumun üçüncü günündeki panelde Kamu Gözetimi Muhasebe ve Denetim Standartları Kurumu Başkan Yardımcısı sayın Derviş Altınok, değerli hocalarımız Başkent Üniversitesi öğretim üyesi Prof. Dr. Nalan Akdoğan, İstanbul Ticaret Üniversitesi öğretim üyesi Prof. Dr. Necdet ŞENSOY ve Anadolu Üniversitesi öğretim üyesi Prof. Dr. Seval Kardeş Selimoğlu, davetli konuşmacılarımız olarak sunumları ile katkı sağladılar. Bu Sempozyumda sunulan yeni ve ilginç muhasebe araştırmaları hakkındaki bildirilerin içinde Amerika'daki Clarion University'den öğretim üyelerinin bildirileri ile ülkemizdeki 45 farklı üniversitedeki öğretim üyelerinin ve muhasebe meslek mensuplarının hazırladığı toplam 66 bildiri yer almıştır. Bu bildiri metinlerinin yer aldığı ISBN numarası ile hazırlanan bildiri kitabı <https://mufadisaf.com> adresindeki Sempozyum web sayfasından yer alarak bildiri yazarlarına ulaşması sağlanmaktadır. Ayrıca daha sonra revize edilerek makaleye dönüştürülen çalışmalar, hakem süreci tekrarlanmak suretiyle Derneğimizin süreli yayını olan "Muhasebe ve Finansman Dergisi" nin özel sayısında yayımlanmaktadır.

Lütfederek bizlerle bilgi birikimini paylaşmayı kabul eden davetli konuşmacı hocalarımıza ve ayrıca Online sunumlar ile aramızda olan ve geniş bir katılım sağlayarak bizleri onurlandıran değerli hocalarımıza sonsuz teşekkürler.

Bu Sempozyumun gerçekleştirilmesi için her türlü desteği sağlayan mensubu olmaktan kıvanç duyduğum Üniversitemize, titiz çalışmaları ile bildirilerin değerlemesini yapan bilim kurulu üyelerine, Sempozyuma büyük katkıları olan, tüm çalışmalarda yer alan organizasyon komitesi üyelerine, Sempozyuma anlam katan konuşmacılara ve katılımcılara şükranlarımı ifade etmeyi bir borç bilirim. Sempozyumun amacına ulaşmış olması dileklerle şahsım ve MUFAD adına saygılar sunarım.

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## **INFLATION ACCOUNTING IN TERMS OF TAX LEGISLATION AND ACCOUNTING STANDARDS IN TURKEY**

Naim Varol<sup>1</sup>

### **Abstract**

Inflation is the level of prices increasing at a substantial rate over some time, thus requiring more money each year to buy a given amount of goods and services. Financial statements are instruments of an enterprise that reflect the financial position and results of operations. In high inflationary periods, if they are reported in the currency of the same hyperinflationary economy they do not reflect the real financial position and activity results of an entity. Many arrangements have been made to prevent the negative effects of inflation on the presentation of financial statements in Turkey. The most important regulation to eliminate the impact of inflation on the financial statements is the Tax Procedural Law No. 5024, the Law Amending the Income Tax Law, and the Corporate Tax Law. In addition, The Public Oversight Organisation has published TAS 29 of Turkish Accounting Standards and Section 25 of Financial Reporting Standard for Large and Medium-sized Entities, Financial Reporting in Hyperinflationary Economies. In recent years, the inflation rate has remained at double-digit points in Turkey. In this study, inflation accounting is analyzed in terms of tax legislation and accounting standards and found that firstly, a prerequisite rate for application of the inflation adjustment is kept high and based only on The Turkish Statistical Institute's data, secondly the deficiencies in the tax legislation related to inflation accounting and finally mismatches between tax legislation and accounting standards. In the end, solutions for such problems are proposed.

**Keywords:** Inflation Accounting, Tax Legislation, Financial Reporting in Hyperinflationary Economies

### **TÜRKİYE'DE VERGİ MEVZUATI VE MUHASEBE STANDARTLARI AÇISINDAN ENFLASYON MUHASEBESİ**

#### **Özet**

Enflasyon, her yıl belirli bir miktarda mal ve hizmet satın almak için daha fazla para gerektiren belli bir dönem içinde fiyat seviyesinde önemli oranda meydana gelen artıştır. Finansal tablolar, bir işletmenin finansal durumunu ve faaliyet sonuçlarını yansıtan araçlardır. Yüksek enflasyonlu dönemlerde, tablolar aynı yüksek enflasyonlu ekonominin para biriminde rapor edilmeleri durumunda, bir işletmenin gerçek finansal durumunu ve faaliyet sonuçlarını yansıtmazlar. Enflasyonun Türkiye'deki finansal tabloların sunumuna olumsuz etkilerini önlemek için birçok düzenleme yapılmıştır. Enflasyonun finansal tablolara etkisini azaltmaya yönelik en önemli düzenleme 5024 sayılı Vergi Usul Kanunu, Gelir Vergisi Kanunu ve Kurumlar Vergisi Kanunu'nda yapılan değişikliklerdir. Ayrıca, Kamu Gözetimi Kurumu, Türkiye Muhasebe Standartları'ndan TMS 29 ve Büyük ve Orta Büyüklükteki İşletmeler için Finansal Raporlama Standardının 25. Bölümü olan Yüksek Enflasyonlu Ekonomilerde Finansal Raporlama Standartlarını yayımlamıştır. Son yıllarda, Türkiye'de enflasyon oranı çift haneli rakamlarda seyretmektedir. Bu çalışmada enflasyon muhasebesi vergi mevzuatı ve muhasebe standartları açısından analiz edilmiş ve öncelikle enflasyon düzeltmesi uygulaması için gereken ön koşul oranının yüksek tutulduğu ve sadece Türkiye İstatistik Kurumu'nun verilerinin temel alındığı, ikincisi vergi mevzuatı ile ilgili eksikliklerin bulunduğu ve son olarak da muhasebe standartları ve vergi mevzuatı arasında uyumsuzlukların olduğu tespit edilmiştir. Çalışmanın sonunda problemlere yönelik çözümler önerilmiştir.

**Anahtar Kelimeler:** Enflasyon Muhasebesi, Vergi Mevzuatı, Yüksek Enflasyonlu Ekonomilerde Finansal Raporlama

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## **1. INTRODUCTION**

Financial statements are instruments of an enterprise that reflect the financial position and results of operations and if they are prepared by the enterprises in periods of high inflation do not reflect the real financial position and activity results. In addition, business capital is going to be reduced since taxation will be made over the fictitious gains in high inflationary periods.

It can be provided to the users of the financial statement to reflect the actual situation of an enterprise, to provide the correct information, to evaluate the financial periods, and to make a comparative analysis with different firms by implementing inflation accounting.

Many arrangements have been made to prevent the negative effects of inflation on the presentation of financial statements in Turkey. The last and most important regulation to eliminate the impact of inflation on the financial statements is the Tax Procedural Law No. 5024, the Law Amending the Income Tax Law, and the Corporate Tax Law. In addition, The Public Oversight Organization (POO) which is responsible for setting accounting and auditing standards and authorizing and registering auditors and audit firms has published TAS 29 Financial Reporting in Hyperinflationary Economies and Financial Reporting Standard for Large and Medium-sized Entities (BOBI FRS), Section 25 Financial Reporting in Hyperinflationary Economies. BOBI FRS is the financial reporting framework for the entities, which do not have to apply Turkish Financial Reporting Standards but are within the scope of the independent audit. The purpose of the BOBI FRS is to provide fair, relevant, and comparable financial information to the users of financial statements.

## **2. INFLATION CONCEPT AND EFFECTS OF INFLATION ON FINANCIAL REPORTING**

Financial statements can be defined as tools that enable the information recorded and collected in the accounting system to be communicated to those who will use this information at time intervals. The data generated as a result of the transactions made on different dates in the financial statements during the periods when the prices are constantly increasing, make the information in the financial statements meaningless since they will be expressed in currencies of different purchasing power.

The homogeneity of the financial statements deteriorates the opportunity to make comparisons disappears and the operating results of the business differ significantly. In such a case, the financial statements should be corrected to adjust to the purchasing power of the Turkish Lira at the end of the period.

### **Inflation and Accounting Concept**

Inflation is an increase in the general level of prices in an economy, resulting in a decrease in the purchasing power of the functional currency. It not only affects negatively the true presentation of the financial statements of entities but also whole households living in such country.

Accounting is the process of identifying, measuring, recording, and communicating an organization's economic activities to users. Users need information for decision-making. Internal users of accounting information work for the organization and are responsible for planning, organizing, and operating the entity. The area of accounting known as managerial accounting serves the decision-making needs of internal users. External users do not work for the organization and include investors, creditors, labor unions, and customers. Financial accounting is the area of accounting that presents financial information of interest to external users (Dauderis and Annand, 2014: 2).

In a truly hyperinflationary economy, users of financial statements are unable to make meaningful use of such statements unless they have been recast into currency units having purchasing power defined by prices at or near the date of the statements.

### **The Effects of Inflation on Balance Sheet**

The balance sheet is a table that shows the financial status of the enterprises according to the accounting records by showing the assets, liabilities, and equity of the enterprises in a classified manner.

During inflation periods, the balance sheet, which is prepared following the classical accounting principles, loses its function of showing the truth and thus helping the company concerned.

Increases in the general price level do not affect all balance sheet items to the same degree. It is possible to examine the effects of inflation on the asset and liability group on the balance sheet that expresses the financial structure of the business as assets, liabilities, and shareholders' equities.

The asset and liability structure of the balance sheet can be divided into monetary assets (nominal assets) and non-monetary assets (real assets) in terms of being affected by inflation, i.e. whether they can monitor price movements or not.

### **The Effects of Inflation on Monetary Items**

Monetary items are items whose nominal values remain the same in the face of changes in the value of money, but whose purchasing power changes in the opposite direction according to price movements.

Assets such as cash, banks, receivables, receivables in the Turkish Lira are items that cause inflation losses. These items keep their nominal values exactly in the face of changes in money value. But their real value, i.e. their purchasing power, changes in parallel with changes in money value. Nominal value is the value written on money, bonds, and similar securities. As the general price level increases, the purchasing power of these items decreases. In other words, these assets lose value in the face of inflation. The same is true for a Turkish Lira receivable. There is a negative difference between the purchasing power at the time the receivable is realized and the purchase when it is collected (Altınışık, 2019: 2).

### **The Effects of Inflation on Non-Monetary Items**

Non-monetary items gain and lose value in line with price movements. The fact that these items are included in the balance sheet with their cost values causes them to be shown below their real values in inflation periods. This situation leads to misleading results of financial analysis and management decisions made based on this information. When viewed from this angle; the financial statements of companies that have a large amount of non-monetary assets in their balance sheets are more affected by inflation (Karapınar and Gürdal, 2013, 18).

Non-monetary assets are assets parallel to changes in monetary value with varying nominal values but remaining the same purchasing power. These items generally protect their value in inflationary periods. For this reason, non-monetary assets that are not shown on the balance sheet with the current value must be adjusted with the correction coefficient to be expressed their nominal value with the current monetary value. Items such as property, plant and equipment, inventories, future expenses, shares can be given as examples of non-monetary assets.

Capital contained in the balance sheet suffers a rapid loss of its value in the environment of inflation. Financing costs of enterprises that enter the money markets as buyers due to the growing need for working capital are increasing as a result of rising interest rates. In addition,

businesses with foreign resources gain an advantage in an inflationary environment. Since debts recorded in the balance sheets with the values expressing the purchasing power of the money on the debit date will be paid with their registered values when the payment date comes provide inflation earnings to the debtor companies. Entities should prefer long-term borrowing as much as possible to prevent the negative effects of inflation.

Resource items other than monetary resource items constitute non-monetary resources. Equity, future income, advances received can be given as an example for these items. In balance sheets prepared according to historical values, if the increase and decrease in value are not taken into account both non-monetary assets and equity will be included with lower amounts than they are. On the other hand, if the equity is used for monetary asset elements, that is, it is held as cash and similar assets or tied to receivables, the business asset will lose value and the purchasing power of the equity will decrease (Gökçen, 2004: 17).

### **The Effects of Inflation on Income Statement**

Since the income statement shows the sales, revenues of the enterprise in a certain period, the costs incurred in obtaining these revenues, these statements should be arranged with their real values, that is, they should be free from inflation. Because, in the periods of price movements, income statements prepared according to historical data do not fulfill the task expected from the table.

Some of the items in the income statement are included in the table over current value and some over historical cost. While the sales amounts are included in current values, the cost amount related to these sales is included in the income statement over the historical cost values. In the inflationary environment, the income obtained by the enterprises is reflected in the income statement as more than it should be, and the costs and expenses incurred are lower than they should be. In this case, it will not be possible to measure the real income and expenses of the business, the determination of business policies will be strengthened, the liquidity and profitability situations will become uncertain.

### **The Effects of Inflation on Income Items**

Today, although the income statement, which is arranged according to classical accounting principles, can meet the needs only in the periods when the prices are stable, it is far from giving meaningful results in the periods when the prices increase. The effect of price increases on income statement items is also different. This effect is greater for items with low turnover, on the other hand, items with high turnover are affected less frequently as they closely monitor price increases. To determine whether there is a real increase in the sales revenues obtained from the sales of goods and services, which are the main activities of the company, it should be determined whether there is an increase in the amount sold and whether the increase in question will compensate the losses in the purchasing power of the money (Gökçen, 2004: 17).

Since the prices tend to increase continuously in inflation periods, the market prices of the goods and services sold by the company will increase, and therefore, the sales revenue in the income statement will increase in amount. For this reason, it is necessary to determine whether the increase in sales revenues is a real increase. Expense and cost items in the income statement are also negatively affected by inflation. In particular, since raw material inventory and semi-finished product stocks are included in accounting records with their cost values, the cost of goods and services sold in the income statement appears to be less than they are.

The effect of inflation on sales and the cost of sales changes the business concept of profit while making it difficult to maintain capital. The resulting fictitious profit causes additional taxation on the excess of the real profit, which means taxing the capital. Receiving tax on fictitious profit

is wrong in business resources to be used in places, to make erroneous decisions regarding the future, and to turn to foreign resources due to taxation on capital.

### **The Effects of Inflation on Cost Items**

In inflation periods, if all the income obtained by the enterprises in a given period is more than it should be, that is, if all the costs and expenses incurred in the period lower amounts are reflected in the income statement. Without inflation accounting adjustments, the income statements are often exaggerated, bearing no real profit but a fictitious profit figure with all the effects of inflation. For this reason, the period profits and profitability rates seem higher than they are. In this case; it will not be possible to measure the real income and expense of the enterprise, the determination of operating policies will be strengthened, their situation will become uncertain.

### **3. REGULATIONS WITH INFLATION ACCOUNTING IN TURKEY**

Many arrangements have been made to prevent the negative effects of inflation on the presentation of financial statements in Turkey.

The most important regulation to eliminate the impact of inflation on the financial statements is the Tax Procedural Law No. 5024, The Law Amending the Income Tax Law, and the Corporate Tax Law. In addition, The Public Oversight Organization has published TAS 29 of Turkish Accounting Standards and Section 25 of Financial Reporting Standard for Large and Medium-sized Entities: Financial Reporting in Hyperinflationary Economies.

#### **TAS 29 Financial Reporting in Hyperinflationary**

This Standard should be applied to the primary financial statements, including the consolidated financial statements, of any enterprise that reports in the currency of a hyperinflationary economy.

The Standard does not establish an absolute rate at which hyperinflation is deemed to arise but allows judgment as to when restatement of financial statements becomes necessary. Characteristics of the economic environment of a country that indicate the existence of hyperinflation include (TAS 29, Paragraph: 2):

- (a) The general population prefers to keep its wealth in non-monetary assets or a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
- (b) The general population regards monetary amounts, not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- (c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- (d) Interest rates, wages, and prices are linked to a price index; and
- (e) The cumulative inflation rate over three years is approaching or exceeds, 100%.

#### **The Restatement of Financial Statements**

In most countries, primary financial statements are prepared on the historical cost basis of accounting without regard either to changes in the general level of prices or to increases in specific prices of assets held, except to the extent that property, plant, and equipment, and investments may be revalued. Some enterprises, however, present primary financial statements that are based on a current cost approach that reflects the effects of changes in the specific prices of assets held (TAS 29, Paragraph: 6).

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The financial statements of an enterprise that reports in the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, should be stated in terms of the measuring unit current at the balance sheet date (TAS 29, Paragraph: 8).

The gain or loss on the net monetary position should be included in net income and separately disclosed.

### **Historical Cost Financial Statements**

Balance sheet amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index (TAS 29, Paragraph: 11).

Monetary items are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date. Monetary items are money held and items to be received or paid in money (TAS 29, Paragraph: 12).

Non-monetary assets and liabilities statements of financial position items are adjusted using the general price index.

Some non-monetary items in the financial statements are included in their cost values or depreciated cost values. The adjusted values of these items are determined by reflecting on their historical cost and their accumulated depreciation the effect of a change in an overall price index covering a period from the acquisition date to the end of the reporting period (TAS 29, Paragraph: 15).

An investment included in the entity's statement of financial position accounted for using the equity method, may report in the currency of a hyperinflationary economy. In this case, the financial position and comprehensive income statement of the investee are adjusted according to this standard. If the adjusted financial statements of the investee are prepared in a foreign currency, they are converted to the functional currency of the reporting entity at the closing rate.

This Standard requires that all items in the income statement are expressed in terms of the measuring unit current at the balance sheet date. Therefore all amounts need to be restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the financial statements (TAS 29, Paragraph: 26).

In periods of high inflation, if the assets and debt items of the enterprise do not change depending on a price level, businesses with monetary assets larger than monetary debts lose their purchasing power, while businesses with monetary debts greater than monetary assets gain purchasing power.

Gains or losses in this net profit may arise from adjustment differences of non-monetary assets, equity, comprehensive income statement items, and index-linked assets and liabilities.

In this case, the gains or losses in the net profit are included in the profit or loss of the business. Adjustments made in assets and liabilities that are linked to price changes by an agreement are netted off with the net monetary position profit or loss.

Other income and expense items such as interest income and expense and exchange differences related to funds deposited or borrowed in foreign currency are also associated with the net monetary position.

### **Current Cost Financial Statements**

Items stated at the current cost are not restated because they are already expressed in terms of the measuring unit current at the balance sheet date. Statement of financial position items that

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are not valued based on current cost is adjusted following this standard (TAS 29, Paragraph: 29).

Comprehensive income statement items prepared on the current cost basis include current costs at the dates of the relevant transactions or events. Therefore, all amounts in the statement of comprehensive income must be adjusted for the current measurement unit at the end of the reporting period using a general price index.

### **Taxes**

As a result of the adjustment of the financial statements according to this standard, there may be differences between the book values of the assets and liabilities in the statement of financial position and their tax base. In accounting for such differences, TAS 12 Income Taxes Standard is applied.

### **Cash Flow Statement**

All items in the entity's cash flow statement are required to be reported in terms of the current measurement unit at the end of the reporting period.

### **Corresponding Figures**

The previous reporting period's financial statement figures, whether prepared according to historical cost or the current cost approach, are expressed in terms of the current measurement unit at the end of the reporting period, using a general price index.

### **Consolidated Financial Statements**

If a business reporting in the currency of a hyperinflationary economy has subsidiaries that also report in the currencies of hyperinflationary economies, the financial statements of such subsidiaries should first be adjusted using a general price index in the currency of the country for which the subsidiary is reporting.

If the subsidiary is in a foreign country, the adjusted financial statements of the subsidiary are converted to the functional currency of the reporting entity at the closing rate.

If the financial reporting periods of the consolidated financial reporting entity and its subsidiary are different, all financial statement items, whether monetary or not, are adjusted according to the current measurement unit at the time of issuance of the consolidated financial statements.

### **Selection and Use of the General Price Index**

The restatement of financial statements following this Standard requires the use of a general price index that reflects changes in general purchasing power. All enterprises that report in the currency of the same economy should use the same index (TAS 29, Paragraph: 29).

### **Economies Ceasing to be Hyperinflationary**

When the high inflation period ends, the adjusted financial statement amounts of the previous reporting period are taken as the book value in the following periods.

### **BOBI FRS Section 25 Financial Reporting in Hyperinflationary Economies**

BOBI FRS section 25 and TAS 29 are generally very similar in content. The key differences between them are:

1. The Currency Used Mostly is the currency of the environment in which the business mainly creates and spends its cash. The concept of "Valid Currency" is used in TAS 29. With the BOBI FRS Section 25, the term "Currency Used by Weights" which is not included in TMS 29 has been introduced. BOBI FRS Section 25 regulates the

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accounting principles for the preparation of financial statements of enterprises using the currency of a highly inflated economy as the currency used predominantly.

2. The index to be used in inflation correction is explained in TAS 29 as a general price index reflecting changes in general purchasing power. In the BOBI FRS Section 25, it is stated that enterprises whose currency is mainly Turkish Lira must use the Domestic Producer Prices General Index (D-PPI) calculated for Turkey by the Turkish Statistical Institute. Other businesses use a general price index that reflects changes in overall purchasing power.

3. TAS 29 does not establish an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements following this Standard becomes necessary.

Entities whose functional currency is the Turkish Lira shall adjust their financial statements for inflation if the increase in the Domestic Producer Prices General Index (DPPI) calculated for Turkey as a whole by the Turkish Statistical Institution is higher than 100% for the last three reporting periods including the current period and higher than 10% in the current reporting period (BOBI FRS Section 25, Paragraph 25.2).

4. The following explanation regarding Deferred Taxes in TAS 29 is considered sufficient:

Adjusting the financial statements according to this Standard may cause differences between the carrying values of assets and liabilities in the statement of financial position (balance sheet) and their tax base. Such differences are accounted for following TAS 12 Income Taxes.

In BOBI FRS Section 25, Deferred Taxes and their calculation are explained in detail. The amount of deferred tax to be included in the opening Statement of Financial Position at the beginning of the reporting periods for which this section is applied shall be determined as follows (BOBI FRS Section 25, Paragraph 25.24):

a) Carrying amounts of non-monetary items on the date of the opening Statement of Financial Position shall be adjusted by applying the measurement amount on this date. By comparing their adjustment amounts with their tax bases on the date of the opening Statement of Financial Position, the deferred tax amounts shall be remeasured following the section "Taxes on Income".

b) The deferred tax amounts re-measured under clause (a) shall be adjusted according to the changes arising in the unit of measurement from the date of the opening Statement of Financial Position until the end of the reporting period.

The approach prescribed in clauses (a) and (b) shall be applied in the adjustment of the deferred tax amounts in the Opening Statement of Financial Position of all periods which are presented comparatively with the financial statements of the reporting period when the requirements of this section are applied. With TFRS Comment 7, the deferred tax issue in TAS 29 has been aligned with BOBI FRS section 25.

5. According to TMS 29 when the period of high inflation ends and the entity stops preparing and presenting its financial statements under this Standard. The term-end amounts expressed in terms of the current measurement unit of the previous reporting period are taken as the basis for the book values in the following financial statements.

Entities whose functional currency is the Turkish Lira shall discontinue the inflation accounting practice if both of the conditions specified in paragraph 25.2 are not met. Entities whose functional currency is not Turkish Lira shall discontinue the inflation accounting practice when their assessment of the currency as a hyperinflationary currency is no longer valid (BOBI FRS Section 25, Paragraph 25.25).

When the hyperinflation ends, the values in the financial statements of the last reporting period adjusted for inflation shall constitute a basis for the carrying amounts in financial

statements about subsequent reporting periods (BOBI FRS Section 25, Paragraph 25.26).

### **Inflation Accounting According to the Tax Legislation**

The regulation made to eliminate the effect of inflation on financial statements is the Tax Procedure Law No. 5024, the Law on Amendment to the Income Tax Law, and the Corporate Tax Law which was published in the Official Gazette dated December 30, 2003, and entered into force as of January 1, 2004,

The purpose of Law No. 5024, which amended the Tax Procedure Law, is to purify the financial statements from the effect of inflation and thus to eliminate the negative effects on taxation arising from inflation. Regarding inflation correction procedure, Law No. 5024 has brought a dual approach, and the provisions that are continuous and that determine the main principles for the correction procedure in the repetitive article 298 of the Tax Procedure Law; the provisions regarding the correction of the financial statements dated 31/12/2003 are included in the provisional article 25. Regarding the implementation of Provisional Article 25, the Tax Procedure Law General Communiqué numbered 328 was published.

The main headings of the changes made with the law numbered 5024 are as follows:

- An inflation correction application has been introduced.
- The revaluation application and the provision permitting the valuation of stocks with LIFO have been abolished.
- In the depreciation application, the economic life principle has been adopted.
- The application of cost increase fund and the application of financing expense restriction has been terminated.

### **Concepts Specified in the Law**

Some concepts specified in the law are defined as follows:

- a) **Non-monetary assets**, assets other than monetary assets,
- b) **Monetary assets**; despite the changes in the value of the Turkish Lira, their nominal values remain the same, but their purchasing power varies inversely according to price movements.
- c) **Inflation adjustment** refers to the calculation of non-monetary assets in terms of purchasing power at the date to which the financial statement belongs, by multiplying the amounts to be taken into account in inflation correction by the adjustment coefficient.
- d) **The correction coefficient** is the coefficient obtained by dividing the price index of the month to which the financial statements belong to the price index of the month containing the date of adjustment.
- e) **Average correction coefficient**; the coefficient obtained by dividing the price index for the month to which the financial statements belong to the index found by dividing the sum of this index and the price index at the end of the previous period into two,
- f) **Price index (WPI)**; The General Index of Wholesale Prices calculated and announced by the State Institute of Statistics for Turkey in general,
- g) **Non-real financing cost**; the amount calculated by applying the WPI increase rate for the period in which the debt is used, to the debt amounts (Turkish lira equivalents at the date of adjustment in foreign currency borrowings) in all kinds of borrowing,

**h) Aggregate methods;**

aa) **Simple averaging method;** subjecting the income statement items and inventories to inflation correction by multiplying them by the period average adjustment coefficient, regardless of the dates to be taken as the basis for correction,

ab) **Moving weighted average method;** to be subjected to inflation correction by multiplying the amounts to be taken as the basis for inflation correction of the end of the period inventory and cost of goods sold within the period by the moving weighted average adjustment coefficient. (Adjusted cost of goods sold for the previous period is carried to the end of the inflation-adjusted period by applying a transport coefficient. In these calculations, depreciation and real financing expenses are taken into account without indexing.),

i) **Moving weighted average correction coefficient;** the coefficient calculated by dividing the sum of the inflation-adjusted value of the inventory at the beginning of the period subject to inflation-adjusted inflation and the inflation-adjusted value of the inventory at the beginning of the period and the inflation-adjusted amount of the inventory at the beginning of the period,

j) **Transfer;** The process of calculating the new values of monetary and non-monetary amounts in the financial statements at the end of the relevant period by using the transfer coefficient,

k) **Transfer coefficient;** the coefficient obtained by dividing the price index of the month to which the financial statements belong to the price index at the end of the previous period (for those who started working during the year, for the month of employment)

l) **Inflation difference accounts** are the accounts in which the differences between the value of non-monetary assets after adjustment and their value before adjustment are recorded.

m) **The inflation adjustment** account is the account in which the differences arising from the correction of non-monetary assets are recorded. This account works mutually with inflation difference calculations. Differences arising from inflation correction of non-monetary assets are recorded in the receivables of this account, and differences resulting from inflation-adjusted non-monetary liabilities are recorded in debt. The balance of the inflation adjustment account is closed by transferring it to the income statement.

n) **Net monetary position;** expresses the difference between monetary assets and monetary liabilities.

**The Items to be adjusted for Inflation and the Index to be used**

According to this law, non-monetary items in the financial statements will be subject to inflation adjustment. This regulation covers the enterprises whose earnings are determined based on the balance sheet. These enterprises subject their financial statements to inflation correction if the increase in the price index is more than 100% as of the last three fiscal periods and more than 10% in the current fiscal period. The application of inflation correction ends if both conditions are not met. The Council of Ministers is authorized to reduce the 100% rate to 35% or to increase it back to the legal level, to increase the 10% to 25%, or to reduce it back to the legal level in this article.

**Taxpayers to Make Inflation Adjustment**

Income and corporate taxpayers who determine their earnings based on the balance sheet are obliged to prepare financial statements and make inflation adjustments at the end of their advance tax periods. In the determination of the above-mentioned rates in advance tax periods, the previous thirty-six months including the last month of the three-month periods instead of the last three accounting periods and the last twelve months instead of the current accounting period are taken into account. In case of a correction in any of the temporary tax periods within

an accounting period, then adjustments are made in the following advance tax periods and at the end of the current accounting period.

#### **The Dates to be taken as Basis in the Correction Process**

- a) For securities valued at the purchase price and fixed assets; **date of purchase**.
- b) Items included in the cost of raw materials and supplies, commercial goods, semi-finished and finished inventories, elements that make up the cost of construction and repair work over the years, expenses for the upcoming months and years, tangible fixed assets, and the elements constituting these assets, intangible assets and these the elements that make up the assets, the assets subject to special depletion and the elements that make up these assets, construction and repair progress payments for years, rights and goodwill; **recording date in the books**.
- c) For non-monetary deposits and guarantees received and advances, cash paid-in capital, share premiums, share cancellation profits **collection date**.
- d) For non-monetary deposits and guarantees and advances; **payment date**.
- e) For the assets put as capital in kind; **date of transfer of ownership**.
- f) For the capital increased due to the addition of profit reserves, previous year profits, and net period profit to the capital; **registration date**.
- g) For shares purchased in return for cash capital; **payment date**, for shares received in return for capital in kind; **the date of transfer** of ownership of the assets added as capital, for shares received in return for dividends; **the registration date** of the capital of the participating company.
- h) For non-monetary provisions; **the date of correction** of the asset to which it is related.

#### **Amounts to be taken as Basis for Adjustment**

Article 2 of Law No. 5024, according to the repeated article 298-A / 4; in the adjustment process, the amounts determined according to the valuation provisions in the tax laws are taken as the basis. However, the amounts found after deducting the cost of inventories, goods sold, and tangible fixed assets and the non-real financing costs of financial fixed assets are subjected to the purchase price. It is optional to deduct the non-real financing costs that are transferred to the purchase or cost value of the securities adjusted by aggregated methods.

Taxpayers can also determine the non-real financing cost by applying the rate determined by dividing the WPI increase rate for the period into the average commercial loan interest rate for the period to the total financing costs. However, taxpayers who choose this method cannot return from the method they have chosen until the end of the third accounting period, including the accounting period they choose.

#### **Methods to be applied in the Correction Process**

Taxpayers can apply the aggregated methods determined by the Ministry of Finance in the correction process. However, taxpayers who chose one of the aggregated methods cannot return from the method they chose until the end of the third accounting period, including the accounting period in which they made this choice.

Amounts found as a result of the adjustment are taken into account as the initial values of the following period, regardless of whether inflation adjustment is made in the following period.

If the inflation difference accounts of the liabilities are transferred to another account or withdrawn from the business in any way, they are subject to tax in this period, regardless of the earnings of the periods in which these transactions were made. However, inflation difference

accounts belonging to equity items can be added to the capital by corporate taxpayers, this transaction is not considered as profit distribution.

If the values subject to inflation correction are disposed of, the related inflation adjustment differences are considered as a cost.

In the determination of the base, unacceptable expenses, exceptions, and the previous year's financial losses are taken into account with the amounts subject to inflation correction.

### **Depreciation and Amortization**

Depreciation and amortization are calculated over the adjusted values.

Taxpayers amortize their depreciable economic assets at rates to be determined and announced by the Ministry of Finance. In determining the rates to be announced, the useful lives of economic assets are taken into account (Tax Procedure Law, Article 315).

### **In Case Inflation Adjustment Conditions reappear After an Accounting Period in Which Inflation Adjustment is Not Applied**

The inflation adjustment is made starting from the last period of inflation correction. The previous year's profit determined in this way is not subject to tax, the previous year's loss is not accepted as a loss. However, in the determination of the base, the previous year's financial losses are taken into account with their relative values. Accumulated depreciation is adjusted by taking into account the increasing rate that occurs after the adjustment in the value of the assets they belong to on the balance sheet date.

Difference accounts for liabilities arising from these transactions are subject to tax in this period, regardless of the earnings of the periods in which these transactions were made.

### **The Problems Arising From Inflation Accounting Implementation in the Tax Legislation**

Although Law No. 5024 seems to be compatible with the accounting standards, many problems have arisen due to the communiqués and circulars published regarding the first implementation of the Law. In this study, only the problems related to the relevant law are explained:

- In-Law No. 5024, it is not specified in which financial statements the correction will be made. In the published communiqué, it is stipulated that only the balance sheets will be corrected. Therefore, inflation adjustment is insufficient in terms of tax legislation.
- Law No. 5024 imposes an obligation to apply inflation accounting to income and corporate taxpayers who determine their earnings based on a balance sheet. Accordingly, taxpayers who determine their earnings based on business accounts or simple methods and institutions that keep books based on the balance sheet but are not income and corporate taxpayers will not apply inflation accounting. In this context, it can be said that there is an injustice or deficiency within the scope of Law No. 5024. Because while large companies can deduct their inflation losses from taxes, tradesmen continue to be crushed by inflation.
- There is no regulation regarding what to do in case the value found as a result of the corrections made following Law No. 5024 is higher than the current market value. Presenting the asset with a value higher than the market value means that the balance sheet is inflated.
- The law on inflation accounting was made to eliminate the effect of inflation only on non-monetary items. However, the monetary resources in the hands of the enterprise are also affected by inflation. But this situation has unfortunately been ignored.

- The inflation adjustment is compulsory at the end of the temporary tax periods. Making corrections during temporary tax periods brings an additional burden to both businesses and members of the profession. Inflation adjustment should be made at the end of the accounting period.
- Income and corporate taxpayers, who determine their earnings based on the balance sheet, subject their financial statements to inflation adjustment if the increase in the price index is more than 100% in the last three accounting periods, including the current period, and more than 10% in the current accounting period. The application of inflation adjustment comes to an end if both conditions are not met together. Council of Ministers is authorized to reduce the 100% rate in this article to 35% or to increase it to its legal level again, to increase the 10% rate to 25%, or to reduce it to its legal level again. A prerequisite rate for the application of the inflation adjustment is kept high according to tax legislation. Therefore, this rate should be reconsidered and reduced to a reasonable level.

### **The Necessity of Applying Inflation Accounting at the End of the Fiscal Year 2020**

Although the inflation rate announced by the Turkish Statistical Institute is below the rate announced by the chamber of commerce and academics, it has reached double digits in recent years. There has been devaluation which is the uncontrollable downward adjustment of a Turkish Lira's value since 2018. There has no compatibility between the exchange rate and inflation rate announced by the Central Bank and Turkish Statistical Institute. This is not a normal situation since Turkey as a developing economy in debt needs more foreign currency. It must be a parallel relation between the inflation rate and change in the value of the local currency against foreign currency.

In any case, inflation accounting must be applied, but this cannot be done due to the provision in the law and in the accounting standards that the total inflation rate of three years must be above 100%. As a result, the financial statements of the enterprises do not present their real position. To solve this problem either:

**Table 1.** Domestic Producer Prices General Index by Years

<b>DOMESTIC PRODUCER PRICES GENERAL INDEX BY YEARS</b>	
<b>DATE</b>	<b>INFLATION RATE</b>
31.12.2018	33,64%
31.12.2019	7,36%
31.12.2020	25,15%
<b>TOTAL</b>	<b>66,15%</b>

*Source: The Turkish Statistical Institution, 20.01.2021*

- The provision of the price and exchange rate increases required to apply inflation accounting should be rearranged. Inflation accounting should be implemented based on the total inflation rate announced by the Turkish Statistic Institution and the change in exchange rates according to the Central Bank in the last three years, whichever is higher or,
- The council of Ministers may apply the provision of Law No. 5024: "Council of Ministers is authorized to reduce the 100% rate in this article to 35% or to increase it to its legal level again, to increase the 10% rate to 25% or to reduce it to its legal level again".

**Table 2.** Changes in Exchange Rates between 2018 And 2020

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<b>CHANGES IN EXCHANGE RATES BETWEEN 2018 AND 2020</b>		
<b>DATE</b>	<b>U.S.DOLLAR \$</b>	<b>E.U. EURO €</b>
01.01.2018	3,776	4,5525
31.12.2020	7,4439	9,1466
<b>RATE OF CHANGE</b>	<b>97,13%</b>	<b>100,91%</b>

*Source: The Central Bank, 20.01.2021*

When the tables are examined carefully it is seen that there is no parallel relation between inflation rate and changes in exchange rates through 2018 – 2020. The calculations made by academics and non-governmental organizations show that the inflation rate announced by the Turkish Statistical Institution does not reflect reality.

#### **4. CONCLUSION**

It can be provided to the users of the financial statement to reflect the actual situation of an enterprise, to provide the correct information, to evaluate the financial periods, and to make a comparative analysis with different firms by implementing inflation accounting. However, inflation adjustment has not been made since 2005 due to the provision stipulating “inflation adjustment can be applied if the increase in the price index is more than 100% in the last three accounting periods, including the current period, and more than 10% in the current accounting period “ in the tax legislation related to inflation accounting. As a result, the following deficiencies are found and suggestions are made to solve such problem in this study:

- A prerequisite inflation rate for application of the inflation adjustment is kept high according to tax legislation and the accounting standards.
- The Inflation adjustment is insufficient in terms of tax legislation due to only the balance sheet can be adjusted.
- There are mismatches between accounting standards and tax legislation. Tax legislation about inflation adjustment should be ensured to comply with the International Inflation Accounting norms.
- Inflation adjustment according to the tax legislation imposes an additional tax burden instead of getting rid of the tax on fictitious profits in enterprises with high foreign source items that are not adjusted due to correction of non-monetary assets and liabilities.
- The provision of the price and exchange rate increases required to apply inflation accounting should be rearranged. Inflation accounting should be implemented based on the total inflation rate announced by the Turkish Statistic Institution and the change in exchange rates according to the Central Bank in the last three years, whichever is higher.
- Accepting the fact that monetary items will also be affected by inflation, there is a need for a new application that will include these items in the scope of adjustment.

In summary, the legislation about inflation accounting should be revised, corrected, and synchronized with accounting standards.

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