FACTORS AFFECTING THE TURKISH ACCOUNTING PRACTICES DURING THE REPUBLICAN ERA

Thesis submitted to the
Institute for Graduate Studies in the Social Sciences
in partial fulfilment of the requirements for the degree of

Doctor of Philosophy

in

Management

Onur Uman

Boğaziçi University

2008

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Factors Affecting the Turkish Accounting Practices During the Republcian Era

The thesis of Onur Uman

has been approved by

Prof. Dr. Vedat Akgiray (Thesis Advisor) _____

Prof. Dr. Özer Ertuna _____

Prof. Dr. Noyan Arsan _____

Prof. Dr. Mine Uğurlu _____

Prof. Dr. Rüstem Hacırüstemoğlu _____

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

CONTENTS

CHAPTER 1: INTRODUCTION 1

CHAPTER 2: DEVELOPMENTS IN ACCOUNTING PRACTICES 6
DURING 1920 – 1929

Economic, Social, Judicial and Financial State at the Beginning of 6
the 20th Century
Developments between 1920 -1923 and the Izmir Economic Congress . 27
Developments during 1923 -1929..... 35

CHAPTER 3: DEVELOPMENTS IN ACCOUNTING PRACTICES..... 58
DURING 1929 - 1945

1929 World Economic Crisis and its Consequences in Terms of 58
Accounting
Transition to Statism (1st Five-Year Plan)..... 60
Establishment of Sümerbank and Etibank..... 63
Failure of the 2nd Five-Year Plan..... 65
Agricultural Policies..... 67
Law Numbered 3460 on Organization and Inspection of Public..... 67
Economic Enterprises (KIT) and the Formation of the Accounting
Practices of these Establishments
Developments in the Field of Education 1930-1940..... 69
Developments in Tax Laws during 1933 – 1939..... 72
Comparison of Accounting Practices in Trade Code and Tax Laws..... 74
Arrangements in the tax system between the years 1939 and 1949……. 77
Turkish Economic Congress – 1948…… 80
Training in Accounting, and Developments in the Publication of 84
Accounting Books
Developments in Chambers of Commerce and Industry and 89
Tradesman Associations
Tax Reforms – 1949..... 91
Double Entry Practices in Various Corporations During the Period of ... 94
1929-1945
Evaluation of the Period 1923-1945 in Terms of Accounting Practices... 98

CHAPTER 4: DEVELOPMENTS IN ACCOUNTING PRACTICES 102
DURING 1945 - 1960

Political and Economic Developments Following the Second 102
World War
Developments in the Banking Sector from 1950-1960 and their 118
Effects on Accounting Practices
The Effect of the Income Tax Law Numbered 5421 on Accounting…… 120
Practices
The Effect of the Tax Procedures Law on Accounting Practices…….. 125
Effects of the Turkish Commercial Law Numbered 6762 on ……... 129
Accounting Practices

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

General Evaluation of the 1945 - 1960 Period from the Perspective…. 132
of Accounting Practices
Conclusion……... 134

CHAPTER 5: DEVELOPMENTS IN ACCOUNTING PRACTICES…….. 135
DURING 1960 – 1980

The 1960 Military Coup and Resulting Developments…….. 135
1960 Changes Made in the Tax Laws Following the Military Coup…. 136
Amendments Made to the Tax Procedures Law Following the 1960…. 138
Military Coup
Studies Relating to State Economic Enterprise……... 139
Studies Relating to Accounting from the Period of the State ……. 144
Economic Enterprise Reorganization Committee
Uniform Accounting Studies in Banking and Insurance Firms……... 153
Legal Changes Affecting Accounting Practices Following the 1961….. 155
Elections
Developments Relating to the Promulgation of the Securities ……... 164
Exchange Act
Developments in Higher Education and in Accountancy Training ……. 166
in the Period 1960-1980
Developments in the Auditing of Accounts and the Organization of …. 169
the Accounting Profession
Developments in Accounting on an International Level in the 1970s…. 173
Economic and Political Developments in the 1960 - 1980 Period and .. 174
their Influence on Accounting Practices

CHAPTER 6: DEVELOPMENTS IN ACCOUNTING PRACTICES..... 178
DURING 1980 – 2007

Amendments in Financial Acts during 1980 – 1990…… 179
Approval of the Securities Exchange Act…… 190
Legal Arrangements Concerning State Economic Enterprises…… 193
Uniform Chart of Accounts and Financial Statements in Banks……. 195
Uniform Chart of Accounts and Financial Statements for Insurance….. 197
Companies
Activities of the Turkish Standards Institute (TSI)…….. 198
Approval of Act No 3326 on Financial Leasing…….. 199
Adoption of the Accountants Association Act……. 199
Efforts to Form Accounting Profession Associations and Foundations... 207
Application for Full Membership to the European Union and …… 208
Accounting Regulations in the European Union (Directives)
International Developments and Regulations Related to Accounting …. 213
Practices
Adoption of the Uniform Accounting System…….. 217
Amendments in Financial Legislation in the Period 1990 – 2007…… 230
Developments in Data Processing Technologies…….. 246
Foundation of the Turkish Accounting Standards Board (TASB)…… 248
Developments in Higher Education after 1980……. 252

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

CHAPTER 7: SUMMARY OF THE HISTORY OF ACCOUNTING …….. 255
PRACTICES IN TURKEY AND CONCLUSION

Phases of Accounting Practices…… 255
Conclusion…… 262

APPENDICES

A: The *Merdiban* (Stairs) System..... 264
B: The *Gedik* System…… 266
C: *Ahilik*, the Akhis in the Ottoman Empire……. 268
D: *Tek Düzen Hesap Planı* (Balance Sheet under the Uniform…… 273
Accounting System)
E: Examples of Balance Sheet of Financial and Industial Institutions …. 276
during the Republican Era

BIBLIOGRAPHY …… 291

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

THESIS ABSTRACT

Onur Uman, "Factors Affecting the Turkish Accounting Practices During the Republican Era"

This thesis is based on the assumption that the development of Turkish accounting practices do differ from the West European and North American ones. In the countries possessing a mercantilist past, followed by an industrial stage, generally the existance of stock markets, the nature and the size of their industry, past economic crisis, and independent accounting organizations can be identified as the main factors for the development of accounting practices. Since Turkey had not possessed most of these factors (starting from 19th century till 1980s) the evolution of the above mentioned practices had to take a different route.

The thesis' hypothesis is that the Turkish accounting practices were mainly shaped by the laws instead of market forces. To support the hypothesis an analysis of the market forces in different periods of the last century has be done and it is concluded that none of them showed enough economic sophistication nor a significant size to become a force to push the development of accounting in Turkey. Instead the laws, mainly tax laws, tried to require double-entry bookkeeping from an underdeveloped economy. The emerging private sector started to challenge this model by depending more and more to modern bookkeeping and reporting, starting 1980s, and the international factors of 1990s added momentum to that change. Still, accounting practices are heavily influenced by legal procedures but their evolution is getting more and more affected by the market forces.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

TEZ ÖZETİ

Onur Uman, "Cumhuriyet Döneminde Türk Muhasebe Uygulamalarını Etkileyen Faktörler"

Bu tez Türk muhasebe uygulamalarının Batı Avrupa ve Kuzey Amerika örneklerinden farklı şekilde geliştiği varsayımı üzerinde kurulmuştur. Merkantalist bir geçmişi olan, bu deneyimi de endüstri devrimi ile perçinleyen ekonomilerde pazarın derinliği ve gelişmişliği, sermaye piyasalarının varlığı, geçmiş ekonomik kriz deneyimleri, ve bağımsız meslek örgütleri muhasabe uygulamalarını etkileyen başlıca faktörler arasında sayılabilinir. 19. yüzyıldan başlayarak 1980'lere kadar Türkiye bu faktörlerin çoğunu bünyesinde taşımıyordu; bu yüzden de muhasebe uygulalamalarının gelişimi farklı bir yol izlemek zorunda kaldı.

Tezin hipotezi Türkiye'deki muhasebe uygulamalarının piyasa güçleri ile değil de, mevzuatla şekillendiği yolundadır. Bu iddiayı desteklemek için son yüzyılın çeşitli dönemlerinde olası piyasa güçleri incelenmiş ve bunların hiç birinin sistemi etkileyecek derinliğe ve ekonomik büyüklüğe sahip olmadığı görülmüştür. Öte yandan devlet getirdiği kanunlarla azgelişmiş bir ekonomide çift taraflı kayıt sistemini yaygınlaştırmaya çalışmıştır. Ancak 1980'lere gelindiğinde modern defter tutma ve raporlama ihtiyacı özel sektörü "uygulamaları yasalarla şekillendirme" modelini zorlama itmiş, 1990'lardaki uluslararası gelişmeler de bu değişime katkıda bulunmuştur. Halihazırda kanun koyucuların muhasebe uygulamaları üzerindeki etkileri büyüktür ama giderek piayasa güçleri uygulamaların evrimi üzerine çok daha baskın olmaya başlamıştır.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

CURRICULUM VITAE

NAME OF AUTHOR: Onur Uman
PLACE OF BIRTH: Istanbul, Turkey
DATE OF BIRTH: 25 November 1969

GRADUATE AND UNDERGRADUATE SCHOOLS ATTENDED:
Boğaziçi University.
University of West Georgia.
University of Connecticut.

DEGREES AWARDED:
Doctor of Philosophy in Management, 2008, Boğaziçi University.
Master of Business Administration, 1996, University of West Georgia.
Master of Arts in Political Science, 1995, University of Connecticut.
Bachelor of Political Science, 1993, Boğaziçi University.

AREAS OF SPECIAL INTEREST:
Accounting History, Cost Accounting

PROFESSIONAL EXPERIENCE:
Instructor, Department of Accounting, Koç University, 2005-2008.
Manager, Mithat Alam Film Center, Boğaziçi University, 2002-2003.
Financial Analyst, Ford Otosan, 2001-2002.
Instructor, Departmant of International Trade, Boğaziçi University, 1999-2001.
Research Assistant, Department of Management, Boğaziçi University, 1996-1999.
Research Assistant, Department of Accounting and Finance, University of West Georgia, 1995-1996.

AWARDS AND HONORS:
Türkpetrol Vakfı Foundation, Scholarship for Graduate Studies, 1993-1995.
NATO, Scholarship, 1992.

GRANTS:

PUBLICATIONS:
Uman, Onur. “Factors Affecting the Turkish Accounting Practices during the Republican Era.” Ph.D. Thesis, Boğaziçi University, 2008.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

ACKNOWLEDGEMENTS

It was him, after a break of five years from doctoral studies, who said that he would not do any ordinary thesis with me, that I had acquired a new formation during my break (historical formation) and I should come up with something reflecting this new side of mine: if not, he would be out of this project. Due to him I took a great deal of pleasure from working on such a topic; otherwise it would be impossible for me to give away my previous works, start a new dissertation, and finish it in two years. At this point I cannot do anything but to express my gratitude to Prof. Özer Ertuna for creating this project, providing guidance and encouraging me throughout the work.

This project had a second advisor, though an unofficial one: Prof Nuri Uman. He closely followed my progress; pushed me if I was about to quit, contributed highly to the theoretical framework, and provided assistance in the interpretation of laws, which was not my forte. It is nice, after four decades, to have your father still as your hero.

I have to express also thankfulness to Prof. Noyan Arsan, Prof. Vedat Akgiray, Prof. Rüstem Hacırüstemoğlu, and Prof. Mine Uğurlu, for the time and dedication that they spent over this project. Thank to them the dissertation defence has evolved into some group project, where the brainstorming process was at its highest. Prof. Uğurlu's contribution to the conclusion was above all praise.

Prof. Oktay Güvemli wrote a book and that changed my life. When Prof. Ertuna handed me his book and suggested a perusal, I did not know that book would contain the sparkle to start the project and the fuel to make it possible. I am greatly thankful to Prof. Güvemli for his books and his personal assurances that I can cope with the project.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The last academic support but not the least was provided by Dr. Yıldız Uman. She always criticized me because that is what I asked from her to do and she did it good. She read the manuscript more times than anyone (including myself) and her comments were almost as long as the text itself. Eventually I agreed nearly with all of them. Thank you.

The main thesis killer is not the inability to find a good research question nor the lack of suitable data. It remains within the candidate him/herself. There is always unavoidable moment of self-questioning. Pass through this, you got a thesis. Two people provided me the necessary back-up when I was about to give up. Pınar Ucar, being the first of these two, helped a candidate to concentrate on his thesis, to go on and to look further. Interestingly she did it without a conscious effort; it was in her nature. I have to thank her for her moral support and inspiration. The second person is Fena Fil. As some people think, you are really a sent-by-God-with-a-mission person. Thank you for being there.

This thesis is dedicated to Nuri Uman.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

CHAPTER 1
INTRODUCTION

It is possible to talk about the two mainstream approaches in the investigation of the history of accounting. The first of these is the history of accounting doctrines. In this approach, accounting theories can be defined as "researching and investigating the principles and theories pertaining to the process of making accounting events accountable, and using the findings to contribute to the development of accounting techniques and applications"[13]. In this approach the desired aim is "showing the influence of accounting authors on one another and how the views of predecessors have been developed by their successors, putting forward regional trends of thought, and explaining the development of schools of accounting history"[14].

The second approach is the history of accounting practice approach. The forerunners of this approach are writers living in the twentieth century such as W. Sombart, B. Yamey and M. Chatfield. Certain writers holding this opinion assert that the economic system is the most important factor shaping accounting practices. The forerunner of this view, Werner Sombart**,** claims that accounting doctrines cannot be considered separately from economic systems, and in his work entitled *Modern Capitalism* (1928) he states that it would not have been possible for capitalism to evolve without the advent of the double entry accounting system.[15]

B. Yamey**,** however**,** thinks Sombart's view goes too far, and says that the development of accounting cannot just be explained by the economic system, and that other factors have to be taken into account.

---

[13] Keymen, H. *Muhasebede Nazariyeler.* Ankara: Kardeş , 1967.
[14] Degos, Jean-Guy. *Méthode de recherche en histoire de la comptabilité*. Crege: 1993.
[15] Güvemli, Oktay. *Türk Devletleri Muhasebe Tarihi* vol. I. Istanbul: 1995: 10.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

According to M. Chatfield "accounting is a product of technological, social and institutional factors".[16] In other words, the economic system adopted by a country and the social, cultural, legal and financial structure and the technological developments interplay in the development of accounting, and the developments in accounting doctrines also shape accounting practices.

In the most general sense, accounting can be defined as "the compilation of meaningful and reliable data relating to transactions of a totally fiscal or partially fiscal nature that can be measured in monetary terms from the related sources, ascertaining their accuracy, recording and classifying them, presenting them in the form of a report and giving an interpretation based on an analysis".[17] Accounting based on the data of a profit making concern is known as "financial accounting", when it is based on the income and expenditure of a state it is known as "governmental accounting", and when the income or spending of a country are used as data it is known as "national accounting". For the purposes of our study the term "accounting practices" is used to cover all three kinds of accounting.

The history of accounting is as old as the history of mankind. The practice of keeping records began when trading began. This is verified by papyrus documents from the Egyptian civilisation dating back to BC 3400 and clay tablets found in the river valleys of the Tigris and the Euphrates in Mesopotamia. What is recorded on these documents is basic records of receivables, debts and stocks. In the Hellenistic era, the use of coins became common practice and the use of account titles can be seen. The calculation of profit by considering income and expenditure separately can also be seen at the time of the Roman Empire. This was the first example of accounting records being used to assess performance rather than just being a simple

[16] Chatfield, M. *A History of Accounting Thought*. Robert E. Krieger Publishing Co., 2nd ed. 1977.
[17] Kohler, E. *A Dictionary for Accountants*. Englewood Cliffs, N. J: Prentice-Hall Inc. 5th ed. 1975: 8-9

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

record. Again in the Roman Empire, in around 500 AD, the development of the concept of the inventory began[18].

Should we wish to express these developments in a more systematic way, it can be said that "the first phase in the organisation of accounting records is the accounting known as "Cameral Accounting", which is the recording of revenue and payment according to cash movements. The second stage in the organisation of accounting records called "simple accounting" is the application in the style of conducting all assets and individual accounts as part of the debts-receivables relationship. The third stage is the "double entry recording system", which adds special reserves onto the second stage and is used for analysis by enterprise owners."[19]

The final stage in the evolution of accounting, "double entry bookkeeping", dates back to the thirteenth century. This system was first used in 1296 in Florence, and double entry bookkeeping is thought to have developed as a result of practices in Italian trading cities such as Florence, Genoa, Venice and Milan in the fourteenth and fifteenth centuries."[20] Subsequently in 1494, these developments were written down in a systematic fashion in an application in a section of Luca Pacioli's book entitled "A Summary of Arithmetics, Geometry, Proportion and Proportionality".[21] In the book Pacioli discusses three different books of records, namely, the agenda, the journal, and the ledger, and the way in which they interrelate, and the distinctions between these three books are still preserved today.

Pacioli's ideas were taken a stage further in the work by Antonio Tagliente entitled "Luminario di Aritmetica" published in 1525. Owing to the fact that the

[18] Güvemli, op.cit., p.103.
[19] Güvemli, Oktay. *Türk Devletleri Muhasebe Tarih.i* vol. IV. Istanbul: 2001: 599
[20] Koç, Y. *Genel Muhasebe, İlkeleri – Uygulaması*. Istanbul: Turhan Press, 10th ed., 1998: 9.
[21] Güvemli, Oktay. *Luca Pacioli ve Muhasebenin 500. yılı*. Istanbul: İst YMM. Odası Publication, 1995: 8.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

same transaction was processed both in the journal and in the ledger, the system was given the name of the "double entry bookkeeping method of accounting".[22] In the work by Domenico Manzoni entitled "Double Notebook" published in Venice in 1540, the organisation of accounting records was dealt with in great clarity, the journal article of up to three hundred entries was added, and the practice of putting serial numbers in front of the journal articles was introduced.[23] This arrangement continued without major change up until the twentieth century.

Examining the history of accounting practices, developments in economic life such as increased trade, the transition to industrial production, and the widespread practice of overseas trade and shipping increased the need for accounting knowledge. The reason why accounting did not show significant development from the fifteenth century to the end of the eighteenth century when industrial development began is that the accounting being developed in the sixteenth century catered for all the mercantile needs.

The need felt for more comprehensive accounting data due to developments in Western European economic life was the driving force behind accounting developments. Accounting theorists and pragmatists made an important contribution to these developments in accounting. To put it another way, development in accounting goes from casus to theory or rules.[24].

Taking as the basic premise M. Chatfield's view stated above, in our study we set out to establish the history of accounting practices in Turkey from 1920 to the present day, to state the factors that are significant in the respective periods in the development of accounting practices, and to show whether the said developments conform to the "from casus to theory" model.

---

[22] Koç, *Op. Cit.*, p. 10.
[23] Güvemli, Oktay. *Türk Devletleri Muhasebe Tarihi* vol. I. Istanbul: 1995: 143.
[24] Chatfield, *op.cit.*

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

In order to facilitate this study it is deemed appropriate to examine developments in the field of accounting on a periodic basis. In accordance with this, the twentieth century is divided into the following sub-sections:

1) 1920-1929 Developments in the era of the founding of the Republic
2) 1929-1949 The German School accompanying the Public Economic Enterprises
3) 1950-1960 The German School becomes more widespread along with State Socialism, and the application of the American School is initiated alongside it
4) 1960-1980 The increasing American Influence in Enterprises and Accounting practices with the Introduction of the New Constitution
5) 1980-2007 Opening up to the outside world, globalisation and mandatory international standards

In each chapter, the economic and legal changes and changes in accounting practices in each period in question are dealt with on a separate basis. In stating the factors influencing accounting practices, it is ascertained which developments these factors are the result of, and the main hypothesis of the thesis, namely, whether or not "accounting practices in the Republican period in Turkey are in general shaped by tax laws", is examined. In the sixth and final chapter the results of this research are presented.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

CHAPTER 2

DEVELOPMENTS IN ACCOUNTING PRACTICES DURING 1920 - 1929

2.1 Economic, Social, Judicial And Financial State At The Beginning Of The 20th Century:

In order to better understand the applications in accounting during the early years of the Turkish Republic, we must be reminded in summary, of what kind of economic, social, judicial and financial structure was inherited from the Ottoman State.

The Turkish Republic, although a new state which was established on Ottoman lands of Eastern Trace and the Anatolian Peninsula following a war of independence, acquired many institutions as well as the economic and social organization of the Empire. The developments that took place during the last century of the Empire shed light on this inheritance.

2.1.1. Developments Before The Tanzimat Reforms

The 1839 Tanzimat imperial edict can be considered as a beginning for the 19th Century Ottoman State as well as a guide paving the way for the modern Republic. The legal organization and new institutions proclaimed by the decree had direct influence on the applications of the accounting system, converting the Ilhanite inheritance of '*mardiban*' (stairs method) into the modern double entry system[25].

[25] see. App. I

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

. Before exploring the Tanzimat edict itself and apprehending the changes it brought about, it would be worthwhile to recapitulate the preceding developments.

2.1.1.1.Military Reforms

The Ottoman State was born through and flourished from the '*Ghazi* tradition' and based its state philosophy on the concept of 'conquest'. The inability to keep up with the emerging Industrial Revolution revealed itself in the military establishment thus generating military reforms in the 18th Century in order to halt the loss of land through wars and to prevent the disintegration of the empire. *Mühendishane-i Berriyi Humayun* – The Imperial Military Engineering School and *Mühendishane-i Bahriyi Humayun* -- The Imperial Naval Engineering School were founded to provide the necessary technical education for the military. The State Publishing House, established in 1727, was enlarged to translate foreign sources into Turkish and to print educational material for the newly founded military schools. When these improvements could not stop the regression, more radical measures were employed, and alongside the traditional Janissary and the cavalry corps Selim III inaugurated a new army, *Nizam-i Cedit*, modeled after the 18th Century Prussian tradition.

Later this army was dispersed as a result of the 1807 Kabakci Mustafa revolt; and Selim III, known as an ardent reformer, was dethroned. In the resulting counter-rebellion, Mahmud II (1808-39) ascended the throne with the support of the notables and extended the modernizing reforms with much austerity. During this time a new army, *Sekban-i Cedit,* was established; the Janissary corps, which stood against it and led to its dispersion was also abolished in 1826. Similar to European armies, a

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

military body named the *Asakir-i Mansure-i Muhammediye*, the Trained Victorious Soldiers of Muhammad was established. This recent army set the foundations of today's modern Turkish army, which has also assumed the 'progressive' mentality. The first demographic census held in the empire covered only the male Muslim population, which strongly indicates a military purpose. Again, alongside the madresahs, new schools such as the Military College and the Medical School that adopted the educational principles of Continental Europe were opened to answer military requirements.

2.1.1.2 Administrative Reforms

In the 15th Century Mehmet II had sealed the absolute power of central authority. For the first time this was being circumscribed with the acceptance of the concord *Sened-i ittifak*, which limited the power Sultan Mahmud II held over the notables. Although this restriction was short lived, it paved the way for the acceptance of *Tanzimat* reforms and the declaration of *Meshrutiyet*.

The reforms also embodied the backbone of administration: the bureaucracy. Firstly, the system that made possible, upon their death, the expropriation of the wealth of those who were in the government service, was abolished. Later, the principles of the distribution of authority were determined; the authorities held by the Grand Vizier and the Sheikulislam were allocated to different ministries, sowing the first seeds of ministerial government. Civil servants and governors were put on salaries, thus empowering the dominance of central authority over the extent. Also, by limiting the influence of the extent, the notables were dissolved and in a way, the concord *Senet-i Ittifak* was made inoperative.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

During the reign of Mahmut II, a European type of bureaucracy was attempted, and relevant institutions emerged one by one. Applications can be seen in the formation of the postal service and the requirement of a pass permit, *mürur tezkeresi* for internal, and a passport for external travel. Reform was not only in application but also in image as in the dress code for civil servants (fez, shirt, jacket) and in the arrangement of government offices (desks, chairs and the Portrait of the Sultan).

An indirect improvement concerning accounting was the change made in the tax legislation. The principle was based on the individual paying tax according to his financial strength; that the tax to be paid would be entered in court records and that it would be paid in two installments. Although it did not require for the time being significant changes in book keeping, improvement would be evident in the future. In the years that followed, and even today, the belief that tax legislation is the key element in accounting practices is the major hypothesis of this study.

2.1.2. The Tanzimat Decree

Changes mentioned above were mostly in the military and the administrative organization of the Ottoman State. An important change concerning the history of accounting is certainly the acceptance in November 3, 1839 of the Tanzimat Decree[14], which proposed:

- Security of honour, life and property
- A rearranged revenue service, collection of taxes according to property and income

[14] Karal, E. Z. *Osmanlı Tarihi*. Vol. IV. Ankara: 1976: 2.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- A transparent legal apparatus in which court cases are heard openly and in a fair manner
- Measures to eradicate corruption
- That all these improvements would be the fundamental responsibility of the Government.

2.1.2.1. Administrative Changes

With the above-mentioned principles the state aimed at creating equality between its Muslim and non-Muslim subjects. Every community would be able to open their own training and vocational schools, and all Ottoman citizens could be employed as civil servants into government services. The government was also held responsible "to build new roads and facilitate transportation in order to enrich and increase the natural resources of the country, to remove all difficulties that obstruct the progress of trade and agriculture. For this reason, methods were contrived to benefit from Europe's cumulative knowledge regarding education, science and technology. Foreigners were granted tenure and property rights."[15]

In 1840, six months after the declaration of Tanzimat, the French Penal Code was adopted and made effective. With this body of law, the aim was to constitute equality among the Sultan's subjects. In 1846 the "Administration Law" was passed to regulate the authority, duties and responsibilities of the civil servants.[16] Accordingly, the obligation and duty of the government bureaucracy toward the public was made definite.

[15] Ibid., p.3.
[16] Güvemli, Oktay. *Türk Devletleri Muhasebe Tarihi* vol. III. Istanbul: 2000: 27.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

2.1.2.2 Arrangements in Trade and Economy, and their Impact on Accounting practices

The equality between the Sultan's subjects established by the Tanzimat decree needed to be established in the world of trade as well. For this matter, a secular trade law was required. Thus, the Ottoman State did not hesitate to adopt the French Trade Law, which was considered to be 'the most progressive body of law of the century'. The first and third volumes of The French Trade Law 'Code de Commerce', which was put into effect in France in 1807, were translated in 1850 and put into effect under the name of *'Kanunname-i Ticaret'* Commercial Code. The shortcomings of this law were remedied by establishing trade courts in 1860, by accepting the Conduct of Trade Trial Courts (*Usul-i Muhakeme-i Ticaret)* in 1862, the clauses related to insurance proceedings in 1906, and a cheque regulation in 1915 modelled on The Hague project.[17] The importance of these improvements lies in the fact that they were the most significant procedures of trade jurisprudence that gave direction to accounting practices. Alongside these legal adjustments, due to the emergence of development in trade and industry, in 1879 chambers of commerce and industry, and in 1909 trade corporations were implemented in order to improve relationships between tradesmen, industrialists and the state.

During the Tanzimat period, foreign trade developed in the Ottoman Empire. During this period domestic trade was done by non-Muslims and the export trade by the foreigners. Because of the capitulations, foreigners dominated both domestic and foreign trade. The newly established ministry of trade failed to scrutinize these businesses; individuals of foreign nationalities did not pay the Ottoman State any tax.

[17] Poroy, R. *Son ElliYyılda Türkiye'de Kara Ticaret Hukuku Alanındaki Kanunlaştırma Hareketlerinin Genel Teori Açısından Değerlendirilmesi*. Istanbul: İÜHF Publishing, 1973.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Indeed, these businesses had orderly accounting systems but their bookkeeping was in their own manner and their own language[18].

Ottoman export was of an agricultural quality. Export items were mainly tobacco, wheat, barley, grapes, figs, raw silk, mohair, acorns, hazelnuts, cotton, olive oil, and opium[19]. Import items were sugar, coffee beans, cotton and wool fabrics and clothes, with later additions of flour, rice, paint, petroleum, and processed metals. The identities of those who performed foreign trade as well as the properties of the imported and exported items indicate that the Ottoman Empire in the 19th century was a semi-colonial, agricultural country.

It was the guild system that regulated the work of tradesmen untill the first half of the 18th century Ottoman Empire[20]. When the guilds were abolished, *gedik düzeni* (breach) was installed to regulate the performance of the tradesmen[21]. According to Islamic Law, *Gedik* means 'traders and craftsmen who rent shops etc, from foundations, *waqf*s, or individuals in order to exercise their trade and stay there permanently on the condition that they build installations, apparatus and workbenches, and need the permission of or licence from the owner of the property.' In other words, *gedik* means the privilege or monopoly granted to a trader or craftsman[22]. During the reigns of Selim III and Mahmut II, gediks were re-organized. In 1853, they lost their privileges when this monopolistic system was abolished, but kept their tenure rights. The *gedik* system had an authentic method of record keeping; however, this method had not been influenced by the 19th century accounting practices. They were very small businesses.

---

[18] Güvemli, *op.cit.*, p. 36 -37.
[19] Pamuk, Ş. *Osmanlı Ekonomisinde Bağımlılık ve Büyüme, 1820 – 1913*. Istanbul: 2nd ed. 1994.
[20] Güvemli, Oktay. *Türk Devletleri Muhasebe Tarihi* vol. I. Istanbul: 1995: p.399
[21] see. App. II
[22] *Büyük Larousse*, s.v. "Gedik".

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

It was not possible to 'accumulate capital, and at the same time make investments towards bigger production' with the *gedik* system, which was a continuation of the guilds[23]. The *gedik* system was struck hardest by the trade agreements signed with France in 1830 and with England in 1838[24]. The deterioration of the *gedik* system in the second half of the 19th century and the invalidation of the confiscation scheme led to the creation of a new capitalist class. As a result, in 1879 the emergent industrialists and merchants, although small in number, felt the need to form chambers and in 1910 they acquired the 'Statutes of Chambers of Commerce and Industry'. The 1913 'Temporary Code on the Abolishing of the *Gediks*' removed all limitations that the *gedik* system had set[25].

2.1.2.3 State Revenue

Tanzimat proposed significant changes in the taxation system, and declared that *iltizam usulu* (the system which authorized an individual –the *multezim*- to determine the amount of tax to be collected from a certain region) would be abolished. For this purpose, tax collection was taken from the governors and given to the *defterdars*, the district treasurers; municipal councils were granted more authority, and provincial councils were established. The principle of collecting tax from the individual according to his economic strength was accepted; that revenue from property, land, trade and income would be of the thousandth during times of peace was legalized.

During this period, *Meclisi Muhasebe*, Accounting Council was established in 1840 to emend public finance and to acquire a better-organized system, and *Divani*

[23] Tabakoğlu, A. *Türk İktisat Tarihi.* Istanbul: 2nd. ed, 1994: 299.
[24] Güvemli, *op.cit*. vol III, p. 52.
[25] Pakalın, M. Z. *Maliye Teşkilatı Tarihi* vol. IV. Ankara: 1977: 225.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Muhasebat, Court of Accounts was instituted in 1864 to control budget spending. The Ilhanite '*merdiban system'* inherited and developed by the Ottomans was replaced with the double entry bookkeeping system for state accounts in 1880.[26]

Although the Tanzimat Decree proposed that the state budget applications would be dealt with more seriously, the Crimean War, domestic uprising in Ciddah and Syria, Montenegro, Moldavia and Wallachia, Serbia, and Crete led to an increase in public expenditures. As a result of the inability to raise revenue sufficiently due to capitulations, the budget figures were unable to answer the state's demands; which in turn led to foreign borrowing. The constant increase of Ottoman debt, continuing uprisings, and the 1877-1878 Russo-Turkish War made repayment of loans very difficult. Creditor nations took the matter to the Berlin Conference. The Ottoman State was pressured into accepting the formation of *Duyun-u Umumiye*, Ottoman Debt Administration in October 20, 1881. Among the revenue passed on to the Administration to pay off the debts were salt, tobacco and spirits monopolies, silk tithe, stamp taxes,

Bulgarian Emarat tax, Cyprus tax increase, East Balkan tax, narghile tobacco duty, excess customs income, and excess dividend income. Ottoman Debt Administration was effective until the demise of the Ottoman Empire.

Capitulations influenced the Ottoman state economy strongly. The most important of these effects were the decrease in the collected import taxes and their dismissal. The 3% of import duty made European goods attractive and led to the destruction of domestic production. The 1856 Paris Conference resolved to abolish the capitulations but the application was unsuccessful[27]. Similar attempts made in 1869,1871,1908, and 1912 did not change the situation. At the beginning of WWI the

[26] Güvemli, *op.cit*. vol I, p. 286 – 287.
[27] Ibid., p.53

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Ottomans declared a one-sided abolishment of capitulations but the 1920 Sevres Treaty reinstituted them[28]. Capitulations were abolished with the 1923 Treaty of Lausanne.

In the first quarter of the 20th Century, Abdulhamit II was dethroned and in 1909, Ittihat Terakki Party came to power and established *Islahat-I Maliye*, Financial Affairs Correction and Renewal Commission in 1910 to accelerate economic development and to find new revenue sources outside the *Duyunu Umumiye,* the Council of Administration of the Ottoman Public.In accordance with the Commission's recommendation, the *temettu* tax (dividend tax) which had been in application since 1825 was altered and expanded in 1860 and 1878, underwent a total revision, and in 1914 *Temettü Vergisi Hakkinda Kanunu Muvakkat*, the Provisional Law on Taxation was accepted. This tax, as we might understand it today, was not an income tax from profit but was an assessment of income or expenditure. For example, the dividend tax collected from railway, tram, ferry, port, telephone, water and electricity companies was "5% of the remaining income after the operational expenditure of the final year was deducted." (Article 4)

Dividend tax was collected from both the individuals and the industrial and service establishments. For example, "3% of the premiums of fire and transportation insurance companies, 3% of salaries, and 8% of rental income will be paid as dividend tax." (Articles 4,5,6) Merchants and industrialists had to pay both a fixed and mobile dividend tax depending on their location in the country. Taxes could be paid in two installations in the months of March and September (article 26).

Dividend revenue was adopted from the French Patient Revenue Code, and since it was partly based on documents and records, it contributed to the

[28] Trak, S. *İktisatTtarihi*. Istanbul: 1973: 425.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

development of accounting. Moreover, this tax formed the basis for the transaction tax, income tax and excise taxes that were put into effect during the Republic.

With the declaration of the Tanzimat Decree, the Ministry of Trade was established in 1839. In 1846, the Agriculture Ministry was annexed to it[29]. Trade Ministry was established to enhance commerce and industry and "had always worked for the purchase of agricultural produce but failed to realize its aim. This failure limited the modernization of accounting practices with the undertakings of this ministry"[30].

In the beginning of the 19th century, because the state budget could not be balanced, *Hazine-i Amire*, The Imperial Treasury was annexed to *Darbhane-i Amire*, The Imperial Mint; however when positive results were not achieved, *Umur-u Maliye Nezareti*, Ministry of Finance was established in 1838 and the *başdefterdarlik,* the Treasury was abolished[31]. In 1855, a budget regulation, "The Ordinance for the Arrangement of the Balance Book of the New Treasury" was put to practice[32]. In 1874 this regulation was made effective under the name of "The Budget Ordinance of the Sublime State". In 1864 Government Accounting Bureau was established. This institution continues today as Sayistay.

When in 1876 the First Constitution was accepted, (the articles 96-106 of this constitution is on state budget) proceedings for the budget were held and put into effect within the framework of the constitution. In 1877, when the constitution was suspended indefinitely, budget work was regulated through *salnames*, government

[29] Akyıldız A., Osmanlı Merkez teşkilatında Reform, İstanbul, 1993 p. 135
[30] Güvemli O., *op. cit.,* Vol. III, p. 158-159
[31] Akyıldız A., *op. cit*, p.110
[32] Gürsoy Bedri, *Kamusal Maliye*, Vol. II. Ankara: 1980: 85.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

yearbooks. *Salnames* were documents that recorded annual predictions of income according to type, and expenditure according to departments[33].

After the Council of Administration of the Ottoman Public Dept was established, the state budget was separated into two: One budget covering the income and expenditure of the Ottoman State and the other covering the Public Debt Administration[34]. With the declaration of second Meshrutiyet in 1908, the *Usulü Muhasebe-i Umumiye Kanunu,* Financial accounting Code was put into effect in 1910 to prepare budgets in accordance with the constitution. This law would serve as the basis for the 1920 Financial accounting Code. Although this was a modern law, wars and the Ottoman Debt Administration hampered a healthy budget application[35].

2.1.2.4 The Land Regime

One of the significant changes after the Tanzimat Decree was the Land Regime. The methods of *has, timar,* and *zeamet* that were used from the early days of the Ottoman Empire until the 19th century were abolished, and with the 1858 land code "the rigid records of those who held tenure on state property were softened and the transactions were facilitated. This law accepted individual ownership and land deed was made operative for the first time"[36]. The total acceptance of private ownership of land was realized in 1911. The change in land regime contributed to the emergence of agricultural farms. Another attempt at increasing agricultural production was the opening of the agriculture school in 1850.

---

[33] Güvemli O., *op. cit.,* Vol. III, p. 214.
[34] Yılmaz F. *Devlet Borçlanması ve Osmanlıdan Cumhuriyete Dış Borçlar- Düyunu Umumiye*. Istanbul: 1996: 58.
[35] Gürsoy B., *op. cit*., p. 91.
[36] Cin H. *Osmanlı Toprak Düzeni ve Bu Düzenin Bozulması*. Istanbul, 1985: 245.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

2.1.2.5 Transportation and other Services

The Ottoman Empire tried to follow the technological advances of Western Europe and import them, as they existed, without attempting at research, development or production. In 1855, the telegraph and in 1866 the telephone (five years after its invention) was introduced within the State borders. The steamboat transportation company *Şirket-i Hayriye*, The Auspicious Navigation Company was founded in 1852 and ferried passengers along the Bosphorus until 1930. The first railroad construction began in 1856 between Izmir and Aydin by the British who gained the privilege. In 1860, the Costanta-Černová, in 1868 the Varna-Ruscuk railroads were constructed. In 1871, Haydarpasha-Izmit and Mudanya-Bursa railroads were completed, and in 1912 the first balloon and in 1914 the first plane (for military purposes) were purchased and used[37].

2.1.2.6 Industrial Development

The Ottoman Empire failed to catch up with the Industrial Revolution that had begun in Europe, specifically, in England. The country that did not need to import cotton until the 19th century, imported one million pounds worth of cotton cloth in 1831.[38] This urged the Ottoman State to attempt a government-supported industrialization between the years 1840 and 1850. To meet the needs of the state and especially the military, factories and plants such as Feshane, Istinye Felt, Izmit Felt, Hereke Cloth, Zeytinburnu Cotton Cloth and Zeytinburnu ironworks were built. These companies produced for the Palace and the military without profit, and had an

[37] İhsanoğlu E. *Osmanlı İmparatorluğunun Teknolojik Çağı Yakalama Gayretleri, Çağı Yakalayan Osmanlı*. Istanbul: 1985: 15.
[38] Kütükoğlu M. *Osmanlı – İngiliz Münasebetleri*. Istanbul, 1976: 110.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

accounting system based on provision, production and delivery. During this period, a silk factory in Bursa, a mohair processing felt factory in Balikesir, a paper production plant in Izmir and a shoe factory in Beykoz were also opened.

Between the years 1840 and 1850 the private sector also ventured into industrial enterprise. The investors were mostly citizens of Greek and Armenian origin, and foreign nationals in the import businesses. The state endorsed these investments by providing customs immunity for machinery and equipment import, periodical tax exemption, and from time to time, the guarantee of purchase by the government of surplus material.[39]

The private sector needed state issued 'privilege' for their investments. The state granted privilege for ten years if the investment was considered suitable. Whether the investment would be handed over to the state on termination of the licence was also stated on the permit.

During the decades that followed Tanzimat, the industrial enterprise of both the state and the private sector was unable to compete with European goods and eventually a large number of these factories had to close down.[40]

The Ottoman Empire was willing to promote industrial development from the 1840's onwards. To this end, in 1873 a regulation stating a 15-year period of tax exemption on machinery and equipment was issued. During the era of Meshrutiyet II, a more comprehensive *Teşvik-i Sanayi Kanun-ı Muvakkat*, Temporary Code of Industrial Incentive was issued in December 1st 1913. According to this law, in order to benefit from these incentives, a feasibility report of sorts with economic, legal, financial and technical qualifications was required. Allocating land to investors, taxation of land and buildings, duty and fee exemption, customs immunity on

[39] Martal A. *Değişim Sürecinde İzmirde Sanayileşme, XIX yüzyıl*. Izmir: 1998: 15.
[40] Martal, *op.cit*., p.24.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

imported machines, equipment, bricks, iron and essential components, tax immunity on labour wages and tax immunity for exportation were incorporated into the body of the law. Scrutiny was to be done by Trade, Agriculture and Finance Ministries. An alteration made on this law during World War I stated that the above-mentioned privileges were to be granted only to investors who were Ottoman subjects. The reason for our detailed focus on this law is that it would form the basis of the *Teşviki Sanayi Kanunu*, the Industrial Incentive Law of 1927 and that it would place importance on methodical account keeping for tractable supervision.

2.1.2.7 Development in the Financial Sector

At the beginning of the 19th century, the currency in the Ottoman Empire was *akche*, *kurush* and *para*. Then, 1 kurush equaled 40 para, which equaled 120 akche[41]. In 1818 the akche was no longer in circulation. In 1808, 1 kurush weighed 12.3 grams and had 5.9 grams (3 dirham) of silver. When the government needed to mint money but had insufficient silver, they would decrease the amount of silver in the coin, that is, they would *"tağşiş"* or adulterate the coinage. In 1820, newly stamped coins had 2 dirham of silver instead of 3.[42] Various gold coins were also in circulation. *Adli* gold coin was 12 kurush, Istanbul gold was 8 kurush, Egypt gold was 7 kurush and *Findiki* gold was 11 kurush.

In 1844, the silver and gold coins minted during the reign of Sultan Abdulmecid were named *mecidiye.* One silver mecidiye was 20 kurush. Gold coins were designated 500, 250, 100, 50 and 25 kurush based on their weight.

[41] Pamuk Ş. *Osmanlı İmparatorluğunda Paranın Tarihi*. Istanbul: Tarih Vakfı Yayınları, 1999: 178.
[42] Güvemli, *op. cit.*, Vol.III, p. 56-7.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The first banknote was hand written and issued in 1840. The *kaime* used between the years 1840 and 1862 were taken out of circulation in 1862 but in 1877 and during WWI the Ottoman State felt the need to issue *kaime* again. A certain amount of interest was paid for the kaime. These kaime were of 50, 100 and 200 kurush. The Ottoman Bank acted as a central bank in the release of these *kaime*.

The banking sector developed after the declaration of the Tanzimat. The improvement in agriculture, trade and industry generated monetary market institutions, and the increase in Ottoman debts accelerated banking activities. Bankers, who functioned without any legal regulation until 1873, continued their work in the Galata Commission Building as stated in the ordinance published the same year.[43]

Banks established from the second half of 19th Century to the Republican era are listed below in chronological order.[44]

- The first bank established in the Ottoman Empire is the British based *Osmanlı Bankası,* Ottoman Bank. It was established in 1863 and its charter was changed in 1874.
- Credit Lyonnais, French bank based in France, on July 6th 1963
- *Emniyet Sandığı,* Pawn Office to give personal credit against pawn
- Viener Bank Verein based in Austria, in order to conduct all banking transactions, in 1869
- The German state bank, Deutsche Bank in order to conduct all banking transactions on March 10th, 1870
- Russian External Trade Bank in 1871, in order to develop trade with Russia in foreign markets

[43] Şanda, H. A. *İstanbul Borsasının Yüzyıllık Hayat*. Istanbul: 1966.
Fertekligil, A. *Türkiye Borsasının Tarihçesi*. Istanbul: 1993: 22.
[44] Güvemli, *op.cit*, Vol. III. p. 343.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- *Selanik Bankası*, Thessaloniki Bank based in Thessaloniki, in May 1888, for a concession period of fifty years

- *Ziraat Bankası* Agricultural Bank in 1889, to give credit against real estate and land to farmers, merchants and industrialists

- Based in Rome, Banco di Roma was established on March 9th, 1880 for a concession period of fifty years, and to conduct banking operations, real estate and land mortgages and agricultural credits

- Banque d'Orient, a Greek bank based in Athens, was established in December 1904 to conduct all banking operations

- In May 1908, a London based British bank, The Anglo Levantaine Banking Company Ltd was established to conduct all banking operations

- *Osmanlı Ticaret Bankası*, Ottoman Trade Bank in order to conduct all banking operations and imports and exports, in September 1910

Various other banks of different sizes, such as *Macar Ticaret-i Hariciye Bankası* Hungarian Foreign Trade Bank; *Şark Ticaret Şirketi - Sosyeta Komerçiyale Doryante* The Orient Trade Company; Deutsche Palestina Bank were opened.

2.1.2.8 Education

The Ottoman Empire deeply felt the absence of qualified and educated staff as elements in production. In order to compensate for the staff deficiency in public services, in 1859 *Mekteb-i Mulkiye*, School of Political Science was opened; in 1863 *Darüfunun-i Osmani*, House of Sciences, and Robert College; in 1882 *Mekteb-i Ticaret-i Aliye*, Higher School of Commerce were opened to answer the needs of the

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

private sector; and education in accounting was launched in secondary and high schools. Textbooks on accounting were translated from French. The first school in the Ottoman land that taught accounting was the *Bab-ı Defterdari Mektebi*, The School of Finance Officers. The fact that primary schools were insufficient in preparing students for these schools posed a problem that required urgent solutions from the State.

From the early days of the Ottoman Empire to the Tanzimat period, accounting was not taught in schools. During this period "education was carried out in the form of master- apprentice relation at the *Hazine-i Amire*, Imperial Treasury (Finance Ministry)."[45] Accounting instruction in schools began in the first half of the 19th century in foreign or minority owned schools (such as the American missionary schools, Armenian, English, Italian, Russian, Greek and Austrian schools).[46] Western foreigners, since they presided over the internal and external commerce, accentuated the knowledge of trade and accounting in their schools. In Turkish schools, instruction on accounting began after the declaration of Tanzimat and rapidly became widespread. Accounting was taught in secondary and high schools such as R*üşdiye*, *Idadi*, *Mekteb-i Sultani* Galatasaray, Darüşşafaka as well as in institutions of higher education such as *Darülfunun-i Osmani* (University), *Darül Muallimin* (Teachers' Training School for boys), *Maliye Memurları Mektebi* (School of Finance Officers), *Mekteb-i Mülkiye* (School of Political Science), *Hamidiye Ticaret Mektebi* (Hamidiye School of Higher Commerce), and *Hukuk Mektebi* (Law School).[47] Hamidiye School of Higher Commerce provided a more extensive program in accounting. The reason why accounting became so widespread in schools lies in he

[45] Güvemli O. *Türk Devletleri Muhasebe Tarihi* vol. II. Istanbul: 1998.
[46] Haydaroğlu P., Osmanlı İmparatorluğunda yabancı okullar, p. 89 Ankara, 1993
[47] Güvemli, *op.cit*.,vol.III, p. 90.
For further information see. *op. cit*., p. 92 – 137.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

fact that the Ottoman Empire had for the first time acquainted itself with *muzaaf muhasebe* the double-entry bookkeeping methodology. The State accounting order had not fully adopted the double entry system. However, military institutions pioneered the application of this technique.[48]

In the second half of the 19th century, textbooks on accounting were published in line with these developments. At first, books were translated from French. At the beginning of the 20th century copyrighted books were published. The first book used by the Empire on accounting was printed in Venice, in Armenian, in 1828 and 1830.[49] A Turkish book on accounting was written only in the second half of the 19th century, 350 years after Luca Pacioli.

2.1.2.9 Judicial Arrangement

In 1868, *Şurayi Devlet,* Ottoman Council of State was established to determine the functionaries in cases of disagreement between administrative and judicial courts, to prepare drafts of all proposed laws, to take judicial decisions on all matters of administration, and to express opinion to government authorities.

2.1.2.10 Transformation of Accounting practices pre-1920

The Ottoman Empire experienced significant social, economic, legal and cultural transformation from the beginning of the 19th century to 1920. These changes influenced business life, accounting training and its applications, and were pivotal for the Republican era.

---

[48] İbid., p. 91
[49] Güvemli O. "XIX Yüzyılda Türkiye'de Muhasebe Öğretim Kitapları". in *MÖDAV*, 3, (1997).

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Trade law, land code, incentive measures, changes in tax regulations, improvement in the budget system and the facilities provided by the Rescript of Reform smoothed the path for non-Muslims and foreigners who were experienced in business life, to attempt at larger industrial and commercial enterprises, thus allowing their bookkeeping systems to acquire contemporary techniques.

In the final quarter of the 19th century, accounting gained widespread significance among both the institutions of education and their curricula. The reason for the favourable regard for the double entry system was the prevalence of accounting training, and the changes in economic and social structures.[50] Parallel to education, textbooks on accounting were also written, with their numbers reaching 23 by the end of the century.[51] While at first books were brought from abroad, later copyrighted books in Turkish were published. These books dealt with simple and double entry systems together, and later focused more on the double entry system. This system found application first in government institutions.[52]

To better comprehend the republican era, here are some statistics that reveal what was inherited from the Ottoman Empire:

According to numerical data, there were

6 *Aliyye* (higher education) schools with 1657 students,

189 *Idadi* (high schools) of which 56 were Islamic,

1187 *Rustiye* (secondary schools) of which 426 were Islamic, and

34.843 *Iptidaiye* (primary schools) of which 26.615 were Islamic.

There were 1.331.243 students in these schools. There were 15.351 students attending military schools. There were no female students in any of the higher education facilities.

[50] Güvemli, *op.cit*., vol. III, p. 427.
[51] For full list, see Ibid. p. 585 – 588.
[52] Ibid., p.428

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Also in this period, there were 88 hospitals and only 169 doctors in health services.[53]

The industrial census of 1897 reveals the number of industrial establishments as: 78 in the food sector, 21 in the agricultural sector, 13 in the leather sector, 24 in the lumber sector, 78 in the textile industry, 55 in the paper and stationary sector, and 13 in the chemical industry; totalling to 282. Of these 282 industrial establishments, 22 were of the public sector, 28 were of the private corporation, and the remaining 232 belonged to individuals. 28% of the mentioned establishments belonged to Turks, 10% to foreigners, and the rest to minorities. The overall number employed was 14.060, with average personnel of 50.[54]

Export capacity remained low; for example in 1913, export amounted to 28 million four hundred thousand sterling, and import to 39 million four hundred thousand.[55]

In spite of all the attempts made from the Tanzimat to today, and all the precautions taken, the fact that the economy is semi-colonial and the private sector has not sufficiently developed, the scarcity of personnel, and the capitulations have not helped the expected improvements in accounting practices.

[53] Güvemli, op.cit.vol. III, p. 31 – 33.
[54] Turkish Statistical Institute, "Osmanlı Sanayi 1913-1915 Yılları Sanayi İstatistiği" in *Tarihi IstatistiklerDizisi*, vol.IV. Ankara: 1997.
[55] Pamuk, Şevket. *Osmanlı Ekonomisinde Bağımlılık ve Büyüme, 1820 – 1913*. Istanbul: 2nd ed. 1994: 166.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

2.2 Developments between 1920 -1923 and the Izmir Economic Congress:

2.2.1 Post -WWI General Panorama

Despite all the reforms made from the Tanzimat onwards, the targets in economic and social development have not been achieved due to capitulations, heavy foreign debt, domestic uprisings, the early 20th century Balkan wars and WWI. The defeat in the Balkan wars caused the Empire to lose all its territories in the Balkans. With the defeat at the end of WWI and the signing of the Sevres Treaty, most regions of Anatolia and Thrace were occupied, marking the virtual if not the legitimate end of the Ottoman Empire. To free the land from enemy occupation and to start a war of independence, Mustafa Kemal, a general of the Empire, arrived in Anatolia stepping ashore in Samsun on May 19th 1919; and although not openly declared at the time, initiated the foundation of a new state. The only objective in the period between this date and October 1923,the declaration of the Turkish Republic, was to free a larger part of the country from enemy occupation and create a fully independent state.

Following the initiation of the Turkish Grand National Assembly on April 23rd1920 the first law that was passed was dated April 24th 1924 (Legislation number 1) and titled "*Ağnam* taxation to be collected as usual" With this law, the attempt made by the Ottoman House of Representatives was being completed by stating that revenue would remain the same. "Thus the Grand National Assembly, on the one hand was putting an end to the raised taxation of animal ownership in some provinces, seeking public support, and on the other hand by resolving an unsolved matter discussed in the Ottoman House of Representatives was indicating to a

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

continuation."[56] Law number 24 of Sept 21st1920 altered the Dividend Tax Law in effect since 1914.

The June 19th 1920 decision of the Grand National Assembly retrieved 926 kilometres of Anatolian railroad, 325 km of Baghdad line and 223km of Izmir – Kasaba railroad from the foreigners and turned it over to the General Management Directory (later General Directory of State Railroads). It is an interesting fact that at the time almost all of these railroads were not under the control of the Anatolian Government.

During this period, when all authority was held by the Assembly (unification of powers), a new constitution was accepted (the Constitution of 1921) and made effective. On August 30th 1922 the last battle of the War of Independence was won and on September 9th 1922 Izmir was liberated from Greek occupation ending all actual battles, and on October 11th 1922 the Mudanya Armistice was signed. On October 30th 1922 Caliphate and Dynasty were separated and on November 1st1922 the Sultanate was abolished.

The June 19th 1920 decision of the Grand National Assembly retrieved 926 kilometres of Anatolian railroad, 325 km of Baghdad line and 223km of Izmir – Kasaba railroad from the foreigners and turned it over to the General Management Directory (later General Directory of State Railroads). It is an interesting fact that at the time almost all of these railroads were not under the control of the Anatolian Government.

During this period, when all authority was held by the Assembly (unification of powers), a new constitution was accepted (the Constitution of 1921) and made effective. On August 30th 1922 the last battle of the War of Independence was won

[56] Bulutoğlu K. *Türk Vergi Sistemi*. ed.4, Istanbul: Fakülteler Press, 1971: 5.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

and on September 9th 1922 Izmir was liberated from Greek occupation ending all actual battles, and on October 11th 1922 the Mudanya Armistice was signed. On October 30th 1922 Caliphate and Dynasty were separated and on November 1st1922 the Sultanate was abolished.

2.2.2 Izmir Economics Congress

The new State had not yet signed the Lausanne Peace Treaty and Istanbul was under the siege of the allied forces, yet to discuss the economic development of the country, they organized the Turkish Economics Congress on February 17th1923. One thousand one hundred thirty five delegates attended the congress, which lasted six days. Izmir Economics Congress was in a way the economic variation of Sivas Congress. A wide range of participants from agriculture, industry, trade and labour sectors participated in the congress. These groups all submitted demands in line with their interests. Similar to the National Pact, the Economic Pact was also adopted unanimously.

Major demands of merchants accepted in the congress were as follows[57]:

- Establishment of a trade bank (as a result of this, Türkiye Iş Bankası was founded in 1924)
- Establishment of share certificate and debenture bonds exchange outside Istanbul (this has not been achieved as yet)
- Customs exemption for factory owners on tools and equipment brought from Europe (the contents of the First Industrial Inducement Law, which expired in 1927 was expanded and its period extended for 15 additional years)

[57] Ökçün, G. *Türkiye İktisat Kongresi 1923 İzmir*. Ankara: SBF Publication No. 262: 406-25.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Forestry and mining sites to be connected to export ports via railroads (railroad construction was the first priority of the Republican Government)
- Improvement of laws and commercial provisions (This was realized with the adoption of New Trade Law in 1926)
- Establishment of chambers of commerce throughout the country (Chambers of commerce and industry rapidly became widespread and "The Union of Chambers of Commerce and Industry and Commodity Exchanges of Turkey" was established)
- Simplification in the establishment of corporations and representation on the board in proportion with the shares (This was realized with the adoption of New Trade Law in 1926)
- Reinforcement and improvement of Istanbul School of Commerce (important decisions were taken in this regard)
- Opening of commerce schools in Turkey's important commercial centers (noteworthy developments in this regard took place in the second half of 20th Century)
- Education in economics to be prioritized in all schools, primarily in *sultani* and high schools (, the Republican administration went beyond these demands with fundamental advancements; and opened the Istanbul University in 1933. In line with the modern university concept, Istanbul University Faculty of Economics was opened in 1936 and Izmir Higher School of Commerce was opened in 1945)
- Modification in the dividend tax and establishment of a fair tax system (important tax reforms were made following the establishment of the Republican Government, in 1926 and 1927)

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Demands of the Industrial Group:[58]

- Heavy imports duty to be enforced on goods similar to those produced within the country (this was realized following the lifting of capitulations after Lausanne and upon completion of the transition period, in 1929)
- Machinery parts imported for the industry to be exempt from customs duty (as with the previous matter, this also was realized following the lifting of capitulations after Lausanne and upon completion of the transition period, in 1929)
- Existing railroad and shipping administrations to move local products cheaper (this demand was realized after the construction of railways and passing of cabotage rights in maritime enterprises to Turkish citizens on April 20th 1926)
- Tax exemptions in the Industrial Incentive Law to be expanded, to be applied only to Turkish nationals and to be extended for twenty five years (this demand was realized in 1927, when the Second Industrial Inducement Law was adopted)
- An industrial bank to be established in order to accommodate credits for industrialists (this was realized with the establishment of Industry and Mining Bank of Turkey in 1927)
- Creation of chamber of industry in all provinces and counties (this demand was met by establishing Chambers of Commerce and Industry)

Demands of the Farmers Group:[59]

- Abolishment of *Reji* (monopoly) administration and procedures,
- Creation of Agriculture high school in Anatolia (this proposal was met in 1930's by opening the Faculty of Agriculture in Ankara)

[58] Ökçün, p. 426-29.
[59] Ökçün, p.390 – 405.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Importance to be given to agricultural education and training in all levels
- Primary schools in all villages to have 5000 square meters of gardens, a scientific barn for two cows and a poultry house, a modern bee keeping center, a two-room residence for school teachers; some parts of the garden to be reserved for flowers and other parts for nursery/plantation, the cost and income of which will belong to teachers, thus teaching children hands-on farming, and also settling of intellectuals in villages to be encouraged (this proposal was applied by the opening of village institutes in 1940's)
- Precautions to be taken in order to keep law and order in villages (this was realized with the expansion of gendarmerie corps and the enforcement of village rangers)
- Annulment of tithe (this proposal was realized with the annulment of the Tithe Tax in 1925, despite the opposition by the industrialists and commerce people)
- A moderate tax system to be imposed payable by everyone living in Turkey (important tax reforms were made in 1926, 1927 and 1949)
- Facilitation of Ziraat Bank credit accommodations to farmers
- Construction of roads and highways (this proposal was realized by the preferential construction of railroads in 1923-1935 period, the establishment of State Highways Department in 1950's which initiated the construction of highways, and prioritization in the construction of village roads)
- Conservation and accruing of forests, forestation of new lands and banning of tree uprooting (although the conservation of forests is under the protection of the Constitution and there is a ministry of forestry, this has not been achieved yet)

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Rehabilitation of animal breeds (this proposal was addressed with the formation of insemination stations and the occasional distribution of imported studs to farmers)
- As in other taxes, the animal husbandry tax (*ağnam*) to be collected in installments (the collection of this tax continued until 1960)
- Customs exemption in importing agricultural machinery, switching to the local production of agricultural machinery and schools to train craftsman in the repairing of these machinery (this proposal was met by opening Technical Agriculture schools, The Agricultural Equipment Institution and the establishment of the Turkish Tractor Factory in 1950's)

Demands of the Workers Group:[60]

- Coinage of women and men workers to be changed from worker to "labourer" ('labourer' is being used in the Republican era)
- Right to join a union (this demand was met in 1947, with the enactment of the law regarding the establishment of labour unions)
- Daily working hours to be eight hours (six hours in mines) and the overtime to be limited to four hours (this demand was met with the introduction of Labour Law number 3008, adopted in 1936)
- Women and men below 18 not to be employed in mines
- Children below 12 not to be employed
- On completion of three months of employment, to become "permanent labourer"

[60] Ökçün, p. 430 – 437.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Minimum wage to be determined (this demand was met with the formation of the minimum wage determination commission and also protected with the 55th clause of the Constitution)
- Wages to be paid in cash and on a regular basis
- One-day paid vacation per week to laborers
- One-month paid vacation per annum to laborers who complete one year of employment
- Housing or rent adjustment in large business premises
- Free boarding technical school admission for the children of laborers
- All future businesses to be established within the country should be allocated to Turkish laborers
- Tobacco monopoly to be abolished and foreign franchises to be nationalized (Republican governments prioritized the nationalization policy and completed the nationalization of all foreign establishments by the 1940's)
- Raw exports of agricultural products such as; tobacco, cotton, acorn, wool, fig to be banned and importers to be punished heavily
- Revision of dividend tax (this demand was met by the 1926-1927 tax reforms)
- Artisan regulation, breach system *(gedik*), fruit/vegetable middlemen, porters to be abolished (the legal status of artisans was determined with a clause added to Trade Law and this demand was also met by the formation of Turkish Confederation of Artisans and Small Craftsmen)

Demands of laborers were indemnified with the Labor Law of 1936 and Unions Law of 1947, and these laws were later modified and laborers' rights were expanded.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Proposals related to foreign investment were also made in Izmir Economics Congress. These proposals state that the foreign investment must definitely not be banned. However, it was proposed that the foreign investment should be admitted on the provision that it should not harm the country, the businesses to be conducted solely by the domestic capital must be defined, companies that are not Turkish should not benefit from privileges or permissions and incentives, and foreign companies' should not be permitted to participate in tenders.

Although the Izmir Economics Congress was held immediately after the war, the demands of those who attended the conference guided the politics of the Republican government, and as mentioned above, were also put into practice. As Oktay Güvemli states," most of the commercial and industrial decisions taken in the Congress are related to the support services of accounting".[61] Consequently, decisions about accounting education and involving the training of the manpower needed by commerce and industry was taken in this congress indirectly and many of them were put into practice.

2.3 Developments during 1923 -1929:

2.3.1 Lausanne Treaty and The Economic Changes That Followed

1923 is the founding year of the Republic of Turkey. In the beginning of the year Izmir Economics Congress was held while Lausanne Peace talks continued. As is known, Lausanne Peace negotiations started on November 20th1922. During the first part of the conference no compromise was reached specifically on the Ottoman debts, prerogatives (concessions) of the West European countries, capitulations,

[61] Güvemli, *op. cit*., vol. IV p. 33.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

vacating of Istanbul and the framework for the Straits Regime. A subcommittee was formed to prepare a draft agreement on these topics. The draft was refused by the Turkish delegation, breaking the negotiations on February 4th 1923; the Turkish delegation left for Ankara. Diplomatic notes were exchanged during this period and the negotiations reconvened on April 23rd 1923. Following arduous discussions, the treaty was signed (with the exclusion of the Mosul dispute) on July 24th 1923 and ratified by the Turkish Grand National Assembly on August 23rd 1923. Foreign troops were required to withdraw from Istanbul six weeks after the ratification of the treaty. Withdrawal was completed on October 4th 1923 and Istanbul and the straits were handed over to Turkish forces on 6 October 1923.

Lausanne Treaty consists of one hundred and forty three clauses, seventeen attachments (agreements, protocol and comments) and exchange of letters. Initial clauses determine the boundaries. Greece gave Karaağaç as war reparation. As mentioned above, most important clauses concerning our study were the economic and financial clauses - the most difficult issues of compromise. The most important economic and financial clauses could be listed as follows:

- Capitulations were completely abolished.
- Ottoman debts were apportioned in specific ratios to the states separated from the Ottoman Empire (but most of these states were not forced to pay these debts).
- The citizens of the signatory countries of the treaty were given equal rights with the Turkish citizens on residential and judicial benefits for a period of seven years.
- Apart from certain conditions, Turkey accepted not to put import bans for a period of five years. Due to this clause, Turkey was unable to adjust its

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

foreign trade in a desired pathway until 1929 and continued to be an open market for Western Europe.

- Cabotage right (maintaining all kinds of shipping rights in Turkish territorial waters, rivers and lakes[62]) was secured, however, cabotage rights of English, French and Italian companies in Turkey continued for two more years. Thus, Cabotage right was solely given to Turkish citizens with the 1926 clause numbered 815.

2.3.2 The 1924 Constitution

The Ottoman Empire legally ended with the Lausanne Treaty. When the Lausanne Treaty was signed and Istanbul transferred to Turkish control, the Republic was proclaimed on October 29th 1923, and work started for a new constitution concordant with the Republican regime. Law numbered 431, which abolished the Caliphate and regulated the expulsion of the Ottoman dynasty out of the boundaries of the Republic of Turkey was accepted in 3rd of March, 1924.

The 1921 Constitution, based on the "unity of powers", where total authority was held by the Assembly was abolished and replaced with the 1924 Constitution based on the "separation of powers", which remained in power until 1960. The 1924 Constitution, which was adopted on April 20th 1924, embraced individual rights extensively; yet did not cover social rights. It was also devoid of the judiciary audit (the constitutional court), which secures constitutional rights and also controls the eligibility of the laws within the constitution.

[62] Turkish Language Institute. *Türkçe Sözlük*. Istanbul: 1992: 752.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

2.3.3 State Income Sources and Nationalization

During the Izmir Economics Congress, the labourers, farmers, merchants and industrialists proposed a tax reform. Until 1925, the Republican government sufficed with the collection of old Ottoman taxes and increased some existing taxes. In order to have an opinion on the tax structure of the Ottoman Empire, looking at the 1911 fiscal year budget will be adequate.[63]

Table 2.1.

STATE INCOMES IN OTTOMAN EMPIRE

Income Sources		Income Shares (%)
Direct taxes		53.0
Land tax	10.0	
Military service cash compensation (*Mükellefiyet-i askeriye bedeli nakdisi*)	3.5	
Dividend tax	1.5	
Animal husbandry tax (*Ağnam*)	8.0	
Tithe (*Aşar*)	25.0	
Other taxes	5.0	
Indirect taxes		34.2
Fees and duties	4.7	
Customs taxes	15.0	

[63] Bulutoğlu, *op. cit.*, p. 4 -5

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Monopolies	11.0	
Other indirect taxes	3.5	
Various incomes		12.8
State enterprises	1.6	
State properties	2.6	
Tribute	3.0	
Other	5.6	

Source: 1911 fiscal year budget (Reported by K. Bulutoğlu, Turkish tax system, p. 4)

On February 17, 1925 the Turkish Republic made a huge attempt at abolishing the tithe revenue that used to be the biggest source of income. " Although the state income was inadequate, the government aimed at dispersing the burden of tax among a wider range of taxpayers by means of new taxes, and by abolishing the tithe which was a burden on the peasants and accumulated by those who collected them".[64]

In order to eliminate the income loss caused by abolishing the tithe certain measures were taken:

- Intermediary taxation of agricultural produce marketed by railroad or sea was increased
- Animal husbandry tax was increased and rearranged as 'tally tax'
- Land and property taxes were increased
- Road tax was raised

The aim was to take the burden of tithe off the peasants and lay it on the nonagricultural sectors. Since these taxes were not sufficient to bridge the deficit, an

[64] Bulutoğlu, p. 6.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

extensive tax reform was initiated. On February 10,1926 the number 735 statute, 'general consumers' tax, and on February 13, 1926 the number 755 statute 'entertainment and excise duty' was made effective. On February 27, 1926 the dividend tax was abolished and replaced by income tax. On April 3,1926 with the act number 797 inheritance and legal succession laws were accepted.

Income tax and general excise duty (will be replaced by management tax in 1970s.) was adapted from the newest laws in effect in the West. These improvements intended to spread the taxes to the public, and shift the burden from the agriculture sector to the industry, commerce and service sectors. However, these changes came at a time when industrialization was just taking place and therefore it is difficult to say that the target was reached.[65] For this reason, as will be mentioned later, significant changes were to be made on these taxes.

In line with the suggestions made at the Izmir Economics Congress, Turkiye Is Bankasi was founded on August 26, 1924 with one million TL capital, to encourage savings and national capital accumulation. Two hundred and fifty thousand TL of this capital fund was provided by Mustafa Kemal, the president of the new Republic.

The act number 506 nationalized Haydarpasa-Ankara, Eskisehir-Konya railroads and the Erzurum-Sarikamis-Kars railway bought from the Russians were nationalized. On May 23,1927 with act numbered 1042, *Devlet Demiryolları ve Limanları İdare-i Umumiyesi*, General Directorate of State Railways and Ports was founded. The Turkish Republic inherited 4138 kilometres of railroads from the Ottoman Empire. During the first ten years of the Republic, these railroads were extended to twice the length and by the end of the 20th century they were 8387 km.

[65] Bulutoğlu, p. 7.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Again in line with the advice of the Izmir Economics Congress, the tobacco monopoly was bought from the foreigners and nationalized in 1925.

Another legal arrangement that was made in 1926 and which is related to our subject closely was the new Trade Law. The primary suggestion made at the Izmir Economics Congress was the improvement of laws and regulations of commerce (kavanin ve ahkamı ticariyenin islahı). The new state was diligent in this matter as well, and made a radical change in the trade legislation that was in effect since 1850 yet harshly criticized for not achieving the targets. At the beginning of the 20th century, the German trade legislation, which was considered the most modern law, was translated and put into effect on May 29,1926 as act numbered 865. This law is very detailed on matters of accounting books and on entry systems. The adjudication has given direction to Turkish accounting practices and deeply influenced the education of accounting. This matter will be further explicated in the following chapters.

2.3.4. The Change in Social and Political Structure

While changes were made in financial matters, important laws that regulated social and political structure (they would later be named reformist laws) were accepted. These were, in summary:

- March 3rd, 1924 Caliphate was abolished; Presidency of Religious Affairs was established in place of Ministry of Endowments. Religious and secular education was joined, abolishing institutions of religious schooling (medreses). Law on the Unification of Education (including higher

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

education) attached all educational institutions to the Ministry of National Education, placing education on a secular and national foundation. Religious education was confined to Faculty of Theology.

- April 8th, 1924 Shariah Courts were abolished and unity of jurisdiction was achieved.
- 1924 Darülfünun (University) gained autonomy, eliciting extensive education with literature, medicine, science, and law and theology faculties.
- November 30th, 1925 all dervish lodges and cells were closed down, banning all related clothing and rituals.
- December 1925 dress code was passed, regulating clothing and promoting the hat.
- During the Ottoman era, the Muslims followed the Hegira calendar, the Catholics the Gregorian calendar, and the Orthodox Christians the Julian calendar. The Muslims practiced their holy day on Friday, Jews on Saturday, and Christians on Sunday. Muslims used the alaturka system of timekeeping according to which the clock is set at 12: 00 noon, and non-Muslims the standard (western) system. The Republican Government accepted the International Time and Calendar System starting on January 1st, 1926 to end the confusion. The names of the months were changed from the Hegira to the Gregorian. The week holiday was moved from Friday to Sunday consistent with Europe.
- February 17th, 1926 *Mecelle,* a civil code was abolished; the Swiss Civil Code was translated into Turkish and put into effect under the name of Turkish Civil Code. The most significant change the civil code made in relation to our topic is the section that regulates property clauses, the *Ayni*

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Hükümler. The law on land property, which was in effect since 1858 and permitted partial right to individual property, was abolished. With the new law, full individual ownership of property was legally accepted. In the previous applications, in order to establish personal ownership, the land had to have its cadastral survey done. For this reason, in 1874, in the Ottoman Empire cadastral offices were opened and in 1911 the *Land Registry and Survey High School* was opened in Istanbul to train officials for land registry offices. The applications began with a temporal law passed on February 5th, 1912 but they were interrupted by WWI and the independence wars. During the Republican era, cadastre work gained momentum. With act numbered 658 passed on April 22nd, 1925 the Directorate General of the Land and Cadastre was founded. On December 11th, 1934 Cadastral Survey Act numbered 2613 was passed. Thus, necessary steps were taken to establish the legal and practical right to private ownership of land.

- March 1st, 1926 the Turkish Penalty Code was translated from the Italian Penalty Code, which had replaced the French Code, and was made effective.
- In 1923 Ankara School of Law was founded in Ankara to train modern men of law needed by the Republic. This school became Ankara Faculty of Law in 1925.
- April 19th, 1926 the right of coast trading (cabotage) was accepted as belonging only to Turks.
- April 22nd, 1926 Swiss Code of Obligations was translated into Turkish and passed as Turkish Code of Obligations.
- In 1927 code numbered 1418 was passed to accommodate the need for qualified personnel and to send abroad students on full state grant.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- April 10th, 1928 the 2nd clause of the 1924 constitution which state the religion of the Turkish Republic as Islam was abolished. Also, the 26th clause, which used the expression 'application of Shari laws', was obliterated, transforming the state into a secular one. Religious connotations in the President and Representative oaths were officially cancelled. On February 5th, 1937 the principle of secularism was distinctly added to the 2nd clause of the constitution.
- November 3rd, 1928 Arabic script and numerical were replaced by Turkish letters of Latin root, and on May 8th , 1928 international numeric was accepted. In January 1929 'Public Schools' campaigns were held to teach the population to read and write with Turkish letters. No doubt, the 'Alphabet and Numeric Reform' has greatly helped accounting practices.
- April 1st, 1931 Ottoman units of measurement of distance and weight (*okka, dirhem, arşın, endaze, kulaç, kile* etc) were made void and replaced by the metric system.
- In 1931 Society for the Study of Turkish History was founded to do research on Turkish history.
- February 18th, 1932 'Community Centers' were opened to explain the reforms to the Turkish public, to give a contemporary education to the youth, and to assist in the training and cultural development of the public.
- July 12th, 1932 Society for Research on the Turkish Language was established to clear the language from foreign words. The First Turkish Language Congress was held on September 26, 1932.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- June 21st, 1934 the Family Name Law was passed. On November 27, the usage of customary names, titles and repute were banned (later, this ban will be nullified).

For the permanence of these reforms, the constitutions of both 1961 and 1982 carry the clause that "alteration in the principles of Secularism and the Republic cannot be proposed" and that "the reform laws cannot be deemed unconstitutional".

2.3.5 Changes in the Economic Structure

While changes were taking place in the social and political structure, reforms also took place in the economic level. As mentioned previously, Lausanne Treaty called for the customs regime to continue for some time without change. This period ended in 1927 and beginning from this date, a protective customs tariff in accordance with the principles of Izmir Economic Congress was accepted.

Progress was made in nationalization, the primary target. In this context, a great portion of the railroads and Haydarpaşa port were nationalized.

During this period, since liberal economy policies were held in favour, a legal and financial infrastructure was prepared to implement economic development through the private sector. In order to answer the incentives requested at the Izmir Economic Congress, the Republican government completed the Code of Industrial Incentive dating from 1913which had expired in 1927, and put into effect on June 15,1927 for a duration of 15 years the Second Code of Industrial Incentive through the law numbered 1055. The incentives brought with this statute are:

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Distribution of state owned land up to ten hectares, without fee.
- Distribution of land and buildings reclaimed from private owners by way of expropriation, to industrialist.
- Primary assistance by the State in infrastructure investments.
- Exemption of industrial managements from taxes, duties and levies at the initial level of installation.
- Customs immunity in the purchase of machinery, installation, raw material and collateral goods.
- Discount in railway fares and fees.
- Discount in raw and collateral material supplied by the State.
- State priority in purchases of these industrial products.[66]

While some of these incentives were already in the First Code of Industrial Incentive, some are in line with the Izmir Economic Congress. 341organizations that benefited from the First Code of Industrial Incentive until 1923 were: 8 mining, 163 agricultural, 64 textile, 22 forestry, 22 paper and cardboard industries, 25 metallurgical, 24 chemical 5 construction and 8 various other industries; those between 1923 and 1926, were 399 organizations.[67] Between 1927 and 1932, 1.473 organizations benefited from the Second Code of Industrial Incentive, of which 1295 employed engine power.[68] Besides the State incentives, Industry and Mining Bank was established in 1925 pertaining to the requirements of the Izmir Economic Congress and to extend loans to the private sector. Between 1922 and 1927 the Republican government acted decisively in taking the necessary legal, financial,

[66] Güvemli O. *Yatırım Projelerinin Düzenlenmesi , Değerlendirilmesi ve İzlenmesi*. Ed. 6. Istanbul: 1997: 220.
[67] Güvemli, Oktay. *Türk Devletleri Muhasebe Tarihi* vol. IV. Istanbul: 2001: 95.
[68] Turkish Statistical Institute. *Türkiye'de Toplumsal ve Ekonomik Gelişmenin 50 yılı*. Ankara: 1973: 149-50.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

social and cultural steps towards economic and social progress and tried to develop within the structure of liberal economy.

In 1927 the demographic, industrial and agricultural frame of the Republican era was defined. The first census was made on October 28, 1927. The population was determined as 13.648.270; the literacy rate was 10.7%. The number of industrial organizations was 65.245. People in the work force were 1.730.000 - 27 people per company. 28.440 out of these 65.245 organizations dealt in agriculture, domestic animals and game animal products. In 72% of 46.650 companies, the number of workers was not more than 3. Only 5% of these companies used energy converters[69] - a striking indicator of their level.

The Turkish Republic had completed its founding phase by 1927and passed the fundamental laws such as the constitution, civil code, penal code, trade legislation, state accountancy act, budget and tax legislations. The country's inventory was recorded through industry, demography, and agricultural censuses.

The first incorporated company in Turkey was *Şirket-i Hayriye* The Auspicious Navigation Company founded in 1849.In the 60 years between 1850 and 1910, 94 corporate and limited companies were formed; whereas during the seven years between 1923 and 1930, 178 corporate companies were formed, of which 59 were foreign and 119 were native.[70]

On the one hand, all foreign held companies were nationalized (railways, ports, mines); and on the other, starting with railroads, investment in infrastructure was made. Since the model chosen was development through liberal economy with the help of the private sector, banks (Is Bankasi, Industry and Mining Bank) were

[69] Turkish Statistical Institute. *Türkiye'de Toplumsal ve Ekonomik Gelişmenin 50 yılı*. Ankara: 1973: 150-1.
[70] Tezel Y. *Cumhuriyet Döneminin İktisadi Tarihi*, *1923-1950*. ed. 3. Ankara: Tarih Vakfı Yurt Publishing, 1994: 253.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

founded to give financial aid to these companies, and customs duties were raised, preparing a suitable environment for progress.

2.3.6 Development in Accounting, 1920 –1929

From the Industrial Revolution until the end of the 19th century, developments in accounting in Western Europe and North America were aimed at

- Reconciliation between firms
- Determining Profit and loss
- Determining assets, debts and capital funds.

Accounting had to improve itself to meet the needs of the companies in these respects. From the early years of the 19th century, with the state interference and the practice of income taxes " taxation began to guide accounting practices; unifying record keeping and financial statements nationwide"[71]. This development is regarded as an indicator of yet another of many factors actively involved. As Yüksel Koç states, "there is a strong correlation between the level of development in accounting and the economic, social and cultural levels of the economies it finds application in"[72].

Judging from the improvement made since the Tanzimat, regulations in the trade and tax legislation both during the Ottoman times and the Turkish Republic, indicate to a more progressive accounting level than required by the firms. Even when the double entry system was unknown in most parts of the country, the below clauses on commercial book entry regulation were introduced in the second part of the first book of the trade legislation of 1850: daily bookkeeping and inventory

[71] Güvemli, *op. cit.*, vol. IV, p. 125.
[72] Koç, *op. cit.*, p.11.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

record keeping were made compulsory while others were optional. According to the law:

> Journals are books where daily transactions are recorded as debits and credits on a daily basis. Journals are kept separately from the other books but are dependent on them record wise. At the end of every year an inventory is made, a record of cuurent assets and noncurrent assets are entered together with debits and credits. Journals and inventory require signature. These signatures belong either to a trade court judge, or the mayor or his deputy. The books are stored for ten years.[73]

In the legislation of 1850, a very detailed arrangement was suggested for record keeping. For example, "journals and copies need to be kept in eligible writing, leaving no space between lines so as to prevent later insertions. Words should not be added between the lines, mistakes should not be erased but crossed out by a line, and entries should be re-written"[74]. Also the principle that books properly kept "would be evidence among tradesmen, and the owner of the establishment would be held responsible for the account keeping"[75].

In the third book of the legislation of 1850, the bankruptcy proceedings of businessmen having difficulties in payment are stated. According to the clause:

> the bankrupt is required to prepare his balance sheet, indicate the current and noncurrent assets, enter the date and sign the document declaring its authenticity.If the balance sheet is not prepared, the court may order its completion. Thus prepared, the balance sheet has to be consistent with the bankrupt's books, documents and business details[76].

In a similar manner, inspired by the progress in Western Europe and disregarding the level of economic development of the Ottoman Empire, taxation applied in advanced economies, namely "the income and wealth taxes", were put into effect in 1860 under the name of dividend tax. In 1914 this taxation was expanded

---

[73] Güvemli, *op. cit.*, vol. III, p. 78-9.
[74] Ahmed Ziya. *Ticaret Kanunu Şerhi*. İstanbul: 1928.
[75] Güvemli, *op. cit.*, vol. III, p. 125.
[76] Ibid., p. 80.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

and legalized, raising the requirements of accounting beyond its existing level in the country.

The application of the double entry system took place after laws on trade, property and taxation became operational. In the second half of the 19th century and in the first quarter of the 20th century the law was in effect but the development in accounting practices remained limited to public finance, state owned economic enterprises, and several foreign and domestic private companies. Accounting practices did not cover the whole country. They were practiced mainly in cities of economically developed regions such as Istanbul and Izmir. As mentioned earlier, according to the 1915 census the number of private companies that employed 50 workers on average was 282. The 1927 census revealed the number of companies that employed more than 3 workers and used energy converters as 3262.[77] Data indicates that in 1927 "the number of companies prominent in their accounting practices" who apply the double entry method " is around three or four thousand"[78]. Others were dwarf companies using simpler methods of bookkeeping.

By putting into effect the wealth tax in 1926 and altering the trade legislation, Republican governments preserved the status of "the law exceeding the application". In the Republican era the accounting arrangement proposed by law was beyond the existing one. In a way, the legislation acted as a driving force. However, development is observed in areas where economic and social structures were in harmony with the legal structure.

Contrary to Western Europe, where accounting practices started from the foundation and climbed up with the help of corporations and trade associations, the development of accounting practices in our country has been forced from the very

[77] Turkish Statistical Institute. *Türkiye'de Toplumsal ve Ekonomik Gelişmenin 50 yılı*. Ankara: 1973: 150.
[78] Güvemli, *op. cit.*, vol. IV p. 19 and 21.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

top with legal formulations, and became prevalent in line with the social and economic structure.

We also have to mention the terminology used in accounting practices in the early 20th century. Double entry method was called "Doubled (*Muzaaf*) or the Italian style"; single entry method was called "the simple style". Another application was *Defter-i Kebirli Yevmiye,* the Journal Entered Wage or the American Style. It is understood from the same-titled book Serkis Nihat wrote in 1913 that this style was applied but not exploited enough.[79] In the American Style (it is named as such since it was invented by an American), instead of vault, journal, ledger and trial balance books, a single book is kept. The left side of the book is reserved for daily business, and important book accounts are kept on the right side. This style was adopted from a German book; "Kleins Lehrbuch der Amerikanischen Buchfundrung" and was used in small business establishments until the 1950's (when management record keeping became mandatory).

Arabic script used during the Ottoman period was causing difficulties in accounting. Due to the right to left script, assets were shown on the right and liabilities were on the left side of the balance sheet. Debit column was on the right side of the big book and the credit column was on the left. Furthermore, the *siyakat* script[80] was used in the state accounting records[81]. Following the switch to Latin script in 1928, this difficulty in accounting was resolved.

In terms of culture and politics, Ottoman Empire was widely affected by France during the 19th century. This effect was also seen in the field of accounting. The first accounting book was written in French. Original French accounting books

[79] Güvemli, *op. cit.*, vol. IV p. 223-35.
[80] "Qufi script is very difficult to read due to the variety of the images and the intricacy of the letters. There are dotted and non-dotted varieties used in different centuries. The difficulty in legibility limited it to use in State correspondence". (*Büyük Larousse*, vol. 20, p.10606)
[81] Güvemli, *op. cit.*, vol. IV p. 637.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

were also translated into Turkish. Copyrighted accounting books were written in the early 20th century.

Following the declaration of Meşrutiyet II, and the coming into power of the Party of Union and Progress, Ottoman Empire's relations with Germany increased, and they became allies during the First World War. This close relation manifested itself in cultural areas, and the adoption of German Commercial Code in 1926 directed accounting practices towards the German system.

In Turkey, both during the Ottoman times and the first years of the Republic, trade and financial laws have always been ahead of the economic advancement. The Commercial Code of 1926 includes clauses relating to accounting practices that were beyond the economic and social development of the time. The 1926 Commercial Code states:

"Every merchant is obliged to keep books of three kind: an inventory or balance sheet, a journal, and copies; and has to store all written documentation (article 66).

Merchants may keep other books if necessary, without requirement for consent (article67).

Merchant may employ staff to keep his books, but he himself is responsible (article68).

The books of records have to be approved by a notary before use (article 69).

The inventory book is to record the cash, the estimated value of real estate and tangible assets, all claims collectable with or without bonds, and all debts the merchant has on his first day of business; and the balance sheet should record all the above in its entirety. Balance sheet is to be issued once a year (article 70).

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The initial entry should show the merchant's capital funding. All applications should be recorded daily and chronologically. His personal drawings are to be recorded as single entry at the end of the month (article71).

The copies book records the merchant's business correspondence and telegrams in an exact manner, chronologically, and signed with the trade stamp (article72).

Companies of shared capital have to keep decision registry books where company board and shareholders meeting decisions are recorded; the date of the meeting and the decisions taken, names of participants, votes, and speeches are recorded and signed (article 73).

The journal book is to be certified by a notary: "this book has been viewed". The notary does not hold authorization to inspect any of the pages (article 74).

Merchants and their successors have to store the essential books, accounting documents and correspondence for 15 years (article 75).

During a court case, the court may order the presentation of documentation records relevant to the case (article77).

The absence of commercial books or their lack of legitimate recording is the responsibility of the merchant; he cannot hold the accountant responsible in order to recover himself (article 79).

In cases of fire or natural disasters such as earthquakes or floods, if essential books are destroyed before the date of storage expires, related court has to be informed within 15 days. If the court is convinced, the merchant will be given an attestation (article 80).

In cases of dispute between merchants, legal commercial books will be accepted as evidence if they fill the requirements stated in related articles of the law (article 81).

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Whether in accordance with the law or not, they can be considered evidence against the merchant and his successors (article 82).

Books kept in accordance with the law, are evidence in favor of the merchant. However, if the complainant's books are illegal and are proven to be as such, the record loses its power as evidence (article 83).

In cases when one of the parties in dispute has a legitimate book, and the other lacks a book or wishes not to present one, the records of the former can be evidence against the latter. If the other party presents evidence, the entry in the orderly book ceases to be evidence (article 84).

Apparently, the Code of Commerce of 1926 made detailed arrangements on accounting and bookkeeping methods; and accordingly accepted in principle that the orderly and legitimately kept books will be regarded as evidence for the owner (until proven otherwise). A legal arrangement as such was far beyond the Turkish economic structure of 1926.

An exception laid down with the aforementioned Commercial Code (may be justified in line with the historical context) gravely affected the Turkish accounting system and its application. According to the clause number 13 of this law "whether a street peddler or working at a permanent point on a street, a person whose profit is only self sufficient is considered a small merchant". Subsequent clause of the law (number 14) states, "small merchants are not obliged to keep commercial books", and this interpretation is still valid today, which will be evaluated in details further on.

Another formulation that effected accounting practices during this period has been the Financial accounting Code number 1050, which was adopted on May 26th

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

1927. As mentioned before, the modern budget formulations date back as far as 1855. This application has been changed with budget code of rules in 1871 and 1874. Budget related clauses have been added to 1876 Constitution (clauses 96-107), but after the abolition of the Constitution a year later, budgetary issues have been conducted with "*sal* accountings". "In *sal* accounting, incomes were listed in annual forecast columns according to their types, expenses to their departments. There were no chapter and clause breaks in the budget. It was difficult to consider *Salnames* government yearbooks as budget".[82] Following the declaration of the Meşrutiyet II in 1908, and the reintroduction of the Constitution, in order to prepare a budget in line with the Constitution, the Financial accounting Code was introduced on June 6th 1910. One of the most important laws that affected the accounting practices was the financial accounting code. The initial financial accounting code was designed after the financial accounting laws of France and Belgium and the Financial accounting Code was introduced in September 1326 (1910). This contemporary code also formed the basis for the code numbered 1050. The budget clauses of the 1924 Constitution and the subsequent applications were taken into account during the preparation of the code numbered 1050. The financial accounting codes of France, Italy and Belgium, and their applications were also taken into consideration as well. The Financial accounting Code numbered 1050 was adopted on May 26th 1927. This code is the basic law of the Turkish fiscal administration. It determines the principals of the financial establishment, fiscal administration, and also regulates the budget principals and budget applications in detail. Management of state properties and state accounting is also regulated with this code. Despite many changes, code numbered 1050 is still in effect today.

[82] Güvemli, *op. cit.*, vol. III p. 214.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Transition to dual entry bookkeeping system has always been the aim since 1880.[83] Deficiencies in the 1910 Financial accounting Code were eliminated through government decrees. State accounting was done in the single entry bookkeeping method until this period.[84] In 1924 the first step taken to change this situation was the introduction of the "Calculation Guide", which decided the application of dual entry bookkeeping system in state accounting. "This guide was inspired by the American accounting system and in accordance with their system, *esas defteri,* base book was imposed.[85] However, due to the lack of experienced accountants, this application (dual entry bookkeeping), which was in the accounting code numbered 1050 and was in effect since 1928[86], was discarded and a rather simple system *Tasnif Yevmiyesi,* ledger journal was introduced.[87]

One of the negative factors that affected accounting practices was the low level of literacy and lack of qualified personnel. The young Republic lost many of its qualified people in wars, especially in the Çanakkale and Sakarya battles, and the introduction of the Latin alphabet further dropped the literacy level that was around 10%. This resulted in the reduction of personnel to be employed in the field of accounting.

2.3.7 1929 World Economic Crisis and Transition to Statism:

Deteriorating economic conditions triggered by the World Crisis, which broke out on 24 October 1929 forced the young Republic to new quests. In order to speed up the development of the country, the production of essential goods (textile,

[83] For more see Güvemli, *op. cit*., vol.III, p.221 – 39.
[84] Koç, Y. *Genel Muhasebe, İlkeleri – Uygulaması*. Istanbul: Turhan Press, 10th ed., 1998.
[85] Feyzioğlu, Bedi N. *Milli Muhasebe- Devlet Muhasebesi*. Istanbul: Sermet Publishing, 1966: 346.
[86] Koç, *op. cit*., p. 11.
[87] Feyzioğlu, *op. cit*., p.347.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

sugar, iron, steel, etc) and to realize the infrastructural investments (transportation, communication, water dams, etc), a "five year industry plan" covering the years 1933-1937 was prepared and put into effect. Some of the writers pronounced the plan as "a list of investment projects".[88] As a result of this plan, new factories became operational and the accounting practices went through a change process. These changes and developments will constitute the main subject of the third chapter.

[88] Tezel, *op. cit*., p. 300.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

CHAPTER 3

DEVELOPMENTS IN ACCOUNTING PRACTICES DURING 1929 - 1945

3.1 1929 World Economic Crisis and Its Consequences in Terms of Accounting

The New York Stock Exchange (NYSE) collapsed only a year after *Teşviki Sanayi Kanunu*, the Trade Incentive Code coming into effect, on October 24th 1929. Starting with the American economy, this collapse emanated all over the world. This dire period is known as "The Great Depression" and its effects lasted until 1932, and the price index fell from 100 to 67 in England, to 68 in France and U.S.A. and to 70 in Germany, while raw material prices declined by 50%. Stock exchanges were also affected and the price declines in U.S.A. was 25% and in France 50%. World industrial production decreased by 37%. 12 million people in U.S.A. lost their jobs, whereas, in England job losses were 3 million and in Germany 6 million. International commerce also declined by 80%.[89] Turkey also was affected and due to "The Great Depression" GNP in 1930 declined to 10%.[90] Despite the fact that the country was not industrialized, Turkish economy was distressed from the drop in the prices of agricultural products (price index dropped from 100 to 67).

The Great Depression particularly played an important role in the development of accounting and reporting in the U.S.A. This was due to the assumption that investors and debtors were not given sufficient and significant

[89] *Büyük Larousse*, "economic depression, 1929"
[90] Aysan, M. "Ekonomik Gelişmede Kamu Teşebbüslerinin Rolü: Türkiye Örneği", Paper presented at the *The Increasing Responsibility and Sensibility of the State* congress held 10-13July 2000 in Beijing.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

information in the financial reports[91]. The Federal Government thus publicly regulated the financial establishments, capital market and business enterprises in general. As part of this process, in 1933 companies listed on NYSE through the Securities Act were asked to submit their audited reports. The law was changed in 1934 and independent Securities and Exchange Commission (SEC) was established with the "Securities and Exchange Act". The commission was authorized to determine and enforce accounting practices (Securities Act, Section 19a). One of the functions of the commission was to secure that all the information submitted to the lenders and shareholders were audited and in specific formats. In conducting these regulations, SEC acted jointly with the American Institute of Certified Public Accountants (AICPA). In order to revise the accounting procedures and to evaluate the accepted accounting procedures, AICPA formed the Committee on Accounting Procedures (CAP). This committee worked to improve the private lender reporting standards of financial accounting. CAP under the auspices of AICPA published 51 "Accounting Research Bulletins (ARB)" and 4 "Accounting Terminology Bulletins" between 1938 and 1959. These publications did not bind companies and the auditors[92].

In 1959 AICPA formed the "Accounting Principles Board" (APB) to replace the Committee on Accounting Procedures (CAP). The primary task of this board was to prepare a tax return of accounting concepts and to eliminate the discrepancies in previously published tax returns. APB issued 31 opinions between 1959 and 1973 and undertook the regulation of the financial tables. In October 1964, the management council of AICPA necessitated, in a way, to comply with APB views

[91] Revsine L., Collins D. W. and Johnson, W. B. *Financial Reporting and Analysis*, 3rd ed. New Jersey: Prentice Hall, 2005: 25.
[92] Ibid, p.26.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

and financial statements[93]. This was a milestone and further interest was shown to APB activities. This interest also exposed the drawbacks in APB. While embracing the standardized accounting principals, corporate directors, business world and other related parties expressed their wish to join AICPA in regulating these issues. Study group on the establishment of accounting principles (Wheat Committee) was established in 1971. This committee proposed the formation of an accounting board that would be more independent, function full time and have an increased participation of both private and public sectors. This proposal was accepted by AICPA in July 1973, and the Financial Accounting Standard Board (FASB), which is still functioning today, was established. Since 1973 FASB has published over 140 Statements of Financial Accounting Standards (SFAS), 7 accounting concepts standard and many technical bulletins, and played a major role in the formation of United States Generally Accepted Accounting Principles. While fulfilling its duties, FASB also initiated the formation of International Accounting Standards.

3.2 Transition to Statism (1st Five-Year Plan)

As mentioned in chapter one, a development model promoting continuous state support, private entrepreneurship and incentives and conveniences to this respect was pursued following the Izmir Economics Congress. *Türkiye İş Bankası,* Turkish Is Bank was established (26 August 1924) to grant credits to the private sector and *Türkiye Sanayi ve Maadin Bankası,* Turkish Industry and Mine Bank was established on April 19th 1925 to grant credit to the industrial sector, by Code numbered 633. This bank, while overtaking the management of factories inherited

[93] Revsine, Collins, and Johnson, *op.cit*., p. 27.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

from the Ottoman Empire, also procured technical information and credit to the upcoming industrial establishments. As previously noted, the Ottoman state in the 19th Century had established various factories in order to procure the needs of the army and the Palace. The names and the foundation dates of the major factories turned over to the Bank is as follows:

- *Beykoz Teçhizat-ı Askeriye Fabrikası,* Beykoz Military Equipment Factory (military shoes, boots, bandolier production, 1810)
- Feshane (Defterdar) factory (felt, fez, blanket production, 1836); (a second factory was opened in İzmit)
- Hereke factory (velvet, silk, satin, taffeta production, 1843)
- Bakırköy factory (cotton cloth production, 1850)

Sanayi ve Maadin Bankası, Turkish Industry and Mine Bank established Isparta and Hereke Carpet factory in 1926 and Bünyan Carpet and Blanket factories in 1927. State operation in this implementation was designed *for a temporary period* [94] and the bank's actual business was intended "to provide capital accumulation and economic development by supporting private entrepreneurship". The scope of the *Teşvik-i Sanayi Kanunu*, Inducement of Industry Law, which expired in 1927, was expanded and extended for a period of 15 years, in order to encourage private entrepreneurs. On June 11th 1930, T.C. Merkez Bankası, the Central Bank of the Republic of Turkey was established with Code numbered 1715. 158,7 million

[94] The law requires the bank " to establish and manage partnerships until the industries handed over to the state are transferred to these corporations." Article 8 of the law authorizes the bank " to transfer the factories handed over to the bank with 51% drafts written to the name, to corporations formed by Turks".

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Turkish Lira banknotes were issued in 1924 by Code numbered 701 and transferred to the State Bank.

Despite all these efforts, as a result of the inadequate capital accumulation, the lack of information and expertise of entrepreneurs, infrastructural problems and the negative effects of the 1929 economic depression, the economy was burdened and the country was forced to seek new ways.

With the initiative of the *Milli İktisat ve Tasarruf Cemiyeti*, National Economics and Savings Association, a "National Industry Congress" assembled in Ankara in 1930. In a report submitted to the congress, the reasons for the "dissipation of resources in the economy" were stated as "mistakes in the selection of locations for establishments, inadequate operating capital, lack of equipment and supplies, inconsistency in profit accounts, failure in management and organization and lack of qualified personnel". [95]

Under these circumstances, the government initially divided into two sections the *Türkiye Sanayi ve Maadin Bankası,* Turkish Industry and Mine Bank, which was especially unsuccessful in the field of banking. On July 3rd 1932 and with law numbered 2058, *Devlet Sanayi Ofisi*, State Industry Office was established with the aim of installing and operating industrial enterprises; the facilities of the *Sanayi ve Maadin Bankası*, Industry and Mine Bank were transferred to this office. With law numbered 2063, on July 7th 1932 the status of the Industry and Mine Bank was transformed and its name changed to *Türkiye Sanayi Kredi Bankası,* Turkish Industry Credit Bank. But this change was to be short lived. In order to expedite economic development, to operate monopolies under the control of the state, to undertake the businesses that cannot be achieved successfully or be initiated by the private sector

[95] Güvemli, *op. cit.*, vol. IV, p. 8-9.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

(e.g. infrastructural investments), and to guide the private sector, a new economic model (statism) was initiated. For a speedy development and to produce the essential goods (e.g. textile, sugar, iron and steel, dam) the country needed, a five year industry plan[96] to cover 1933-1937 period was prepared and was implemented in 1933. Thus, a period of "mixed economic model" in Turkey began.

3.3 Establishment of Sümerbank and Etibank

The new economic policy required the establishment of new institutions. Both State Industry Office and Turkish Industry Credit Bank, which were established in 1932, were abolished and Sümerbank was established on June 3rd 1933, with the law numbered 2262. Sümerbank's primary functions could be summarized as:

- To operate the factories taken over from the State Industry Office and to manage the state shares in private industrial establishments in accordance with the principles of the Commercial Code.
- With the exclusion of the factories established by special laws, to prepare the surveys and projects of all industrial establishments to be founded with state capital, and to incorporate and manage them.
- Insofar as its capital permits, to participate in industrial establishments whose expansion would be productive for the country's economy,
- To train essential factory personnel both in domestic schools and abroad.

[96] Some authors claim this to be more of "a list of investment projects" than a plan.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- To give credit to industrial establishments and maintain all their banking procedures.
- To explore the necessary measures for the development of the economy and submit opinion to the Ministry of Economy.

Projects included in the First Five Year Industrial Plan were gathered in five groups such as textile, mining, cellulose, ceramic, and chemicals. Sümerbank fulfilled the investment tasks to a large extent. The factories established during this period[97] are as follows:

- Eskişehir sugar factory (1933)
- Bakırköy cloth factory (1934)
- Keçiborlu sulphur and Isparta rose oil factories (1934)
- Turhal sugar factory (1934)
- Konya cloth factory (1935)
- Kayseri cloth factory (1935)
- Paşabahçe blown glass factory (1935)
- İzmit paper and card board factory (1936)
- Zonguldak anthracite factory (1936)
- Karabük iron and steel factory (1937)
- Ereğli cloth factory (1937)
- Malatya cloth factory (1937)
- Neville cotton print factory (1937)
- Gemlik artificial silk factory (1938)

[97] Güvemli, *op. cit.*, vol. IV, p. 9.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Bursa merinos wool factory (1938)

While these developments took place in the industrial segment, mining was not neglected, and on June 14th 1935, with the law numbered 2805, *Maden Tetkik ve Arama Enstitüsü*, Mineral Research and Exploration Institute was established. The institute was assigned to "explore the operational mine fields and quarries and to improve and develop the existing mines and quarries".

With the law numbered 2985, Etibank was established in 1935, in order to conduct activities in "mining, metallurgy, chemical products and commercial banking fields". Etibank was also given the assignment to maintain underground resources, production and distribution of electrical energy.

Sümerbank and Etibank earmarked the period and made important contributions to the Turkish economy. Sugar production increased from 7946 tonnes in 1929 to 50000 tonnes in 1938, and cement production from 71000 tonnes to 294000 tonnes[98]. W.W. Rostow, who made research on the stages of economic development, states that Turkish economy during this period left the stagnant phase and switched to the "take off" phase[99]. The principle of "statism" was secured with constitutional guarantee, with a change made in the constitution of 1937.

3.4 Failure of the 2nd Five-Year Plan

The 1st Five Year Industry Plan, which was in effect between 1933 and 1937 accomplished its targets by 100%; 40 major production facilities were established in less developed regions and became operational at the end of 1937. Hereupon a 2nd

[98] Güvemli, *op. cit.*, vol. IV, p.9.
[99] Rostow, W.W. *The Stage of EconomicGorowth: A Non-Communist Manifesto*. 3rd ed. Cambridge University Press, 1991.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Five Year Industry Plan covering the period of 1938-1942 was drafted in 1938, but was not put into effect due to Atatürk's death in 1938 and the outbreak of WWII[100].

One other reason for the success of the 1st Five Year Industry Plan is political and economical stability. The Mosul problem was solved in 1930 with the *Cemiyet-i Akvam*, League of Nations, the Straits problem whose points were left incomplete in the Lausanne Treaty was fully resolved with the Montreux Treaty, better relations with Greece, Balkan countries and other neighbors was achieved, and the principle of "*Yurtta sulh, dünyada sulh*, Peace at home, peace abroad" was adhered to. These formed the background of the economic development. On the other hand, as a result of complying with budgetary equilibrium, foreign exchange rates did not change and a period of development without inflation was observed. During this period, while population increased by 50%, the national per capita income increased from $50 to $128[101]. In fact, during the 2nd five-year plan period, because of World War II this positive environment faded, the development plan was not realized, an acute inflation was experienced and the wholesale price index (TEFE) increased from its 1939 level of 100 to 450 in 1945. [102]

While state owned establishments progressed, the Turkish private sector, lacking sufficient capital resources, could not invest in the industry and sufficed with the establishment of parts and components industry to supplement the factories established by the state, which led to the continuation of the policy of statism.

[100] Aysan, *op. cit.*
[101] Aysan, *op. cit.*
[102] Uman, N. *Enflasyon Muhasebesi.* Istanbul: Boğaziçi Üniversitesi Publication, 1979.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

3.5 Agricultural Policies

The bank established in 1863 by Mithat Pasha under the name "*memleket sandıkları*, homeland coffers" with the aim of supporting agricultural activities, was changed to "*menafi sandıkları*, insurance coffers" in 1883, and to *Ziraat Bankası,* Agricultural Bank in 1888. Ziraat Bank's administrative structure was reorganized with a law made in 1916 and with another law made in 1924, while its legal structure was changed into corporation; it was also authorized to deal with agricultural credits and all banking operations. With the law numbered 3202 of 1937, the bank was named as Turkish Republic Agricultural Bank in accordance with the principle of statism, and it was installed as a *iktisadi devlet teşekkülü*, state economic enterprise.

3.6 Law Numbered 3460 on Organization and Inspection of Public Economic Enterprises (KIT) and the Formation of the Accounting Practices of these Establishments

The industrial investments and developments mentioned above led to the beginning of a new period in accounting practices. Foreign factories introduced various accounting practices from their respective countries. Accountants working in these factories gained experience in financial accounting, cost accounting, operating budgets and in the preparation of periodical and end-of-period financial statements and reports.

The increasing importance of state owned economic enterprises, execution of different accounting systems in Sümerbank, and the difficulties faced in audits led to

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

a general reorganization of these establishments[103]. As a result, the establishments whose total capital belonged to the state, Sümerbank, Etibank and Turkish Agricultural Bank were subjected to "*The Code Related to the Management and Audit of Economic Enterprises Established with Total State Capital*" which came into effect on June 17th 1938, numbered 3460.

Along with this law, "uniform accounting system application" started[104], principles were laid down for inter-establishment comparisons, and preparation of forms for budget, balance sheet, profit and loss statements and quarterly operational reports were proposed. In this context, seven types of balance sheet and profit and loss statements, and forms for quarterly operational reports in accordance with business lines were prepared and put into application. [105]

These arrangements were primarily taken from the applications in Germany. Uniform system of accounts has been in practice in Germany since the beginning of the 20th Century. Uniform chart of accounts was prepared in 1902 for tram operations, and in 1908 for ceramics industry in Germany[106]. In his book "Financial Accounting Plan", which was published in 1927, Schmalenbach predicated an accounting plan based on the decimal system, which has pioneered today's accounting plans[107]. In 1936 the Turkish Ministry of Economy requested the uniform accounting system used in the general economy of Germany, and the "Financial

---

[103] Atatürk in his 1937 opening address to the Grand Assembly of the Turkish Parliament presented the Parliament with an objective by stating that "the financial control method for the fully or in most part state owned commercial and industrial establishments have to be very quickly made suitable to their constitution and to the understanding and commercial systems we shall require of them.For these establishments to operate in methods used today, is impossible." The Parliament issued in 1938 the law numbered 3460 on the organization and auditing of Public Economic Enterprises.

[104] Yüksek Denetleme Kurulu. "Tekdüzen Genel Hesap Planı ve Açıklamaları". Report of the specialized accounting commission formed within the Yüksek Denetleme Kurulu. Ankara; 1987: 8.

[105] Başbakanlık Umumi Heyeti. *İktisadi Murakabe Rehberi*. 2nd ed. Ankara: 1963: 126-210. The specified forms of balance sheets are: 1.Industrial 2.Conmmercial 3.Banking 4.Mining management 5. Agricultural Products Offices 6. State Agricultural Management 7.P.T.T (Communication)

[106] Keskinoğlu S. *Endüstride Hesap İşleri Bilgisine Giriş.* Istanbul: Hilal Printhouse, 1968: 35-8.

[107] Koç, Y. *Tek Düzen Muhasebe Sistemi ve Türkiye'deki Çalışmalar*. Ankara.Ankara University. Printhouse, 1973:16.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Accounting Plan" was put into effect with "Goering Mandate" on 11 December 1937[108]. With the influence of German academicians visiting Turkey, this financial accounting plan came into effect with the law numbered 4360. Sümerbank industrial enterprises accepted this accounting plan, which was effectively used in Volkswagen factories, and applied until 1971.

In order to audit state owned economic enterprises, the Prime Ministry Auditing Council reporting to the Prime Minister's office was established with the law numbered 3460. The Prime Ministry Auditing Council has made studies for the development of a uniform chart of accounts and uniform financial statements, and pioneered in the establishment of financial and economic auditing in Turkey. [109]

The reason for our emphasis on this application is that Sümerbank, with its accounting system, was a model institute for the developing private sector establishments after the 1950's. Due to the lack of qualified personnel, those accounting experts who gained experience in state owned economic enterprises and transferred to private sector have applied this system in their respective new institutions[110]. This was another factor in the expansion of the German school in accounting practices.

3.7 Developments in the Field of Education 1930-1940

Established in 1863, *Darülfünun-i Osmani,* academy based on the Islamic tradition of higher education was closed twice in 1865 and 1872, and reopened in 1900 with departments such as theology, mathematics, literature, natural sciences and a philology section which included Turkish, Arabic, Persian, English, French and

[108] Koç, *op.cit.*, p. 17
[109] Güvemli, *op. cit*., vol. IV, p. 464 – 5.
[110] Güvemli, *op. cit*., vol. IV, p. 10.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

German languages. Administration, law and medical schools maintained their educations independent from *Darülfünun*. Studies were carried out in 1912, in order to bring *Darülfünun* to a contemporary university level. Institutes for chemistry, geology, eastern languages and geography were established in 1914. Law was also included. Its staff was strengthened with twenty professors from Germany. With the Republic *Darülfünun* moved to its building which is still in use today (the old ministry of war building). Its name was changed to *Darülfünun* of Istanbul on April 14th 1924, became an incorporate body, gaining scientific autonomy; also the faculty of theology was added. During the 1923-1933 period, which saw important social, economic and legal reforms, *Darülfünun* could not lead in the developments and it acted conservative in some issues. The Ministry of Education was assigned to draft a university law. The ministry invited Albert Malche, a professor at the University of Geneva to Istanbul. Professor Malche submitted his report in 1932[111]. The report contained the problems of Turkish higher education system and proposed the closing down of *Darülfünun*. In line with this report and with Atatürk's proposal[112], the University of Istanbul, comprising of law, medicine, literature and science faculties, was established on May 31st 1933 with the law numbered 2252, and Darülfünun was terminated. The new university had no connection with Istanbul *Darülfünun* and was an absolutely new and Western European institution. Education started on November 18th 1933. The academic staff of the university was procured from three sources. [113]

The first source was the faculty members, who possessed characteristics of modern scientists and transferred from the closed *Darülfünun*. Second source was the young Turkish scientists who made their careers in Europe. The third source was the

[111] Malche, A. "İstanbul Üniversitesi Hakkında Rapor". *Maarif Vekilliği Ana Programa Hazırlık* Seri B. No. 5 (1939) pp.5-22.
[112] Öztürk, Y. "İstanbul Üniversitesi 70 yaşında". *Bütün Dünya* 8 (2003) pp. 18-27.
[113] Çelik, O. "Boğaziçine Sığınanların Türkiyedeki İşletme ve Muhasebe Eğitimine Katkıları" *Muhasebe ve Denetime Bakış,* January, 21 (2007). p.44.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

foreign academicians who received professorship in their respective countries and achieved reputation abroad. There were 55 professors ordinarious, 22 professors, 93 associate professors and a total of 170 faculty members in the University of Istanbul in 1933. 38 of professors ordinarious and 4 of professors were foreign nationals. [114]

Following the Nationalist Socialist Party's coming to power under Adolph Hitler's leadership in 1933 and their racist policies against Jews disturbed a number of Jewish professors who were renown in their fields. Seeing this development, Atatürk invited these scientists who were immigrating or preparing to immigrate to different countries, to Turkey. German academicians started arriving in June 1933 and were assigned in Istanbul and Ankara. With the arrival of these scientists, the faculty of economics in University of Istanbul was established in 1936. Accounting courses in this faculty were primarily important and F. Neumark and A. Isaac were the founders of education in accounting, tax and business administration in Turkey.

During the establishment of Istanbul University in 1933, three higher education institutions were excluded (Higher School of Engineering of Ministry of Public Works, Higher Trade School of Ministry of Economics and Administration School of Ministry of Education). Of these, Higher School of Engineering became Istanbul Technical University in 1944.

Two institutions, the Higher School of Trade and the Administration School are of importance due to their relevance to our subject. Of the two, Higher School of Trade that concentrated on the education of accounting was renamed "Higher School of Finance and Trade" in 1936. The name of this school was changed once again in 1959-1960 and became Academy of Economic and Commercial Sciences, and its

[114] Çelik, *op.cit.*, p. 47

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

evolution regarding its name and structure was completed in 1981, when it became Marmara University.

The school established as *Mekteb-i Mülkiyeyi Şahane* in 1859, was raised to college status in 1877 and renamed *Mekteb-i Mülkiye* in 1908 but was closed in 1915. It was reopened in 1918 and its status was changed and joined the Ministry of Education. Upon Atatürk's request in 1934, *Mekteb-i Mülkiye* was transferred to Ankara and it started functioning in its new building in Cebeci from 1936 onwards. Yet with Atatürk's proposal, its name was changed to "School of Political Sciences" and education was extended to four years. Publicly known as "Mülkiye", the school was converted to faculty on March 23rd 1959 by the law numbered 5627, and attached to University of Ankara, which was established in 1946.

There were 223 male, 36 female students and 71 faculty members in the Higher School of Commerce between 1930-1931. There were 130 male, 4 female students and 24 faculty members in School of Administrative Studies (*Mülkiye*) during the same period. [115]

With the establishment in 1936 of Istanbul University's Faculty of Economics, the number of institutions giving higher education in accounting in this period increased to three.

3.8 Developments in Tax Laws during 1933 – 1939:

As mentioned before, radical changes were made in the tax system between 1920-1930. Dividend tax was abolished and replaced with income tax, while the execution of general consumption and entertainment and private consumption taxes,

[115] Güvemli, *op. cit*., vol. IV, p. 390-1.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

stamp duty and consulate charges deed charges and court charges started (see Appendix Table 2.1).

Tax return system was widely used in income tax. This income tax, which was beyond the developmental status of the economic framework, had to be regulated several times. Consumption tax, collected widely from sales, was changed to transaction tax on May 20th 1927, with law numbered 1039. Local consumption tax was accepted on June 30th 1930, with law numbered 1718. On the other hand, transaction tax underwent important revisions with laws 1860, 2430 and 3843, dated 1931, 1934 and 1940, and finally became a tax solely collected from production industry[116]. According to Kenan Bulutoğlu; "Due to insufficient collection from consumption taxes (smuggling in small institutes was very high), the government was forced to a wide practice of monopoly system."[117]

On 27 June 1931 and with law numbered 1886, the property tax statute of 1886 abolished and it was replaced by real estate tax. Same year on 4 July 1931 and with law numbered 1937, the house property tax dated 1910 was abolished and was replaced by building tax. The standards for these taxes were restructured in 1936.

In order to cover for the taxes decreased by the world economic crisis, crisis tax, balance tax and aid to the air forces tax were executed.

With the experiences gathered, the indirect taxes and transaction taxes were restructured on 22 March 1934 and with law numbered 2395. When the Second World War started, in order to coop with the fast increasing expenditures, the transaction law was given a final retouch on 28 May 1949 and with law numbered 3843. According to this change, "the transaction tax base for producing institutions was assessed as, the sales cost of the delivered finished good and the rate is 10%. In

[116] Bulutoğlu, *op. cit*., p. 6-7.
[117] Ibid., p. 7.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

banking and insurance companies, due to the course actions, the transaction tax base was the cash or calculated money and the rate was 2,5% (this rate later was increased to 5% and to 7,5% in 1942). In import, the transaction tax base was the import value to Turkey of the goods that were produced abroad and the rate was 10% (this rate was increased to 12,5% in 1942)."

As the transaction tax was calculated over the monthly tax returns, the taxpayers were obliged to keep manufacturing, transaction, commodity, import, export and purchases books and also issue invoices (journal and ledger keepers stated in the commercial code are not obliged to keep purchases book). As seen here, the transaction tax is based on declaration, instead of lump sum taxation, and as it enforced people to keep special books other than those books stated in the commercial code and it envisaged annual audit of these books, this tax contributed immensely to the prevalence of accounting practices.

3.9 Comparison of Accounting Practices in Trade Code and Tax Laws:

The registry system of accounting books in our country has been regulated separately in both commercial code and tax code. Therefore, a comparative study of these legal arrangements will prove beneficial in explaining the developments in accounting practices. The point to keep in mind is the necessity of keeping books for the "large establishments". Small merchants are not obliged to keep commercial books as stated in the 14th clause of the commercial code. As mentioned earlier, "small merchant" is described in the commercial code as such: "if he is only self sufficient with his income, whether roving or stationery in a store or at a spot on a street, he is considered a small merchant" (Turkish Commercial Code, 13th clause).

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

This concession has significantly affected the expansion of accounting practices. Accounting practices were limited to a small number of banks, insurance companies, large industry and trade establishments and the monopolies such as railways, maritime lines, tram and subway enterprises, Zonguldak mine enterprises, tobacco factories, state owned enterprises managed by Sümerbank and Etibank. As a natural result of this, the most developed accounting practices were observed in above-mentioned establishments.

The mandatory books as stated in trade law and various tax laws are shown in table 2.2. The tax department, apart from the conventional books, made the additional books mandatory for its own needs. According to Güvemli:

> [...] these books, declared mandatory by tax laws, have led to a considerable knowledge in accounting practices, but on the other hand it is difficult to say that these applications helped accounting concept to become contemporary.[...] Certainly the income tax law played an important role in the development of the accounting documents, book records, balance sheets and financial statements. For the first time the state was able to implement tax applications based on financial statements. It was an historical milestone in the Turkish tax pattern that the state was interested in balance sheets and income statements.[118]

[118] Güvemli, *op. cit*., vol. IV, p. 147.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Table 3.1

Mandatory Books to Be Kept

Name of the Book	According to the 1926 Trade Code	According to the Transaction, Income and Domestic Consumption taxes
Book of Assets and Balance	Mandatory	Mandatory
Journal	Mandatory	Mandatory
Draft Book	Mandatory	Mandatory
Ledger	Not Mandatory	Mandatory
Manufacturing Book	Not Mandatory	Mandatory
Transaction Book	Not Mandatory	Mandatory
Book of Commodity imports and exports	Not Mandatory	Mandatory
Purchases Book	Not Mandatory	Mandatory
Income Transaction Book	Not Mandatory	Mandatory
Purchases Book	Not Mandatory	Mandatory
Invoice Book	Not Mandatory	Mandatory

The order of accounting was important in transaction and income taxes. As these taxes were based on tax declarations, the integrity of these tax returns had to be audited. This led to the establishment of tax audit system. With the tax code numbered 2995, “Comptroller of Revenues” (*varidat kontrolörlüğü*) has been formed on 29 May 1936. The previously formed “public auditorship” (*maliye müfettişliği*) was rather an internal auditing unit to inspect the finance ministry and its organization. Thus, a new system to audit the taxpayer was one of the most important

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

steps forward in adhering to tax laws in accounting practices. This effect still continues today.

3.10 Arrangements in the tax system between the years 1939 and 1949

During WWII, although Turkey had a great army, she managed to stay out of the war by pursuing an active policy of neutrality. During the years of war, the tax system was not altered as a whole but in order to remedy the rapid increase in government expenditure, current taxes were increased while new taxes were put into effect. These were wealth taxes, agricultural levies, property proceedings taxes and export taxes. [119] These were extraordinary taxes peculiar to times of war.

These taxes, especially the wealth tax has left "*deep scars*" in the community. The wealth tax was put into effect towards the end of 1942. The aim was to quickly "tax the exorbitant profit made by those who kept or overstocked the goods whose prices were increasing rapidly". However,

> the basis and the rate of the tax were not determined. The local assessment commissions were given full authority in this matter. Those who could not pay in one month's time were sent to work camps. The conduct of the local assessment commissions was unfair and inegalitarian, and the tax was collected like wealth dissipation revenue. [120]

Agricultural levies were put into effect on June 1st 1941. This tax was collected in the form of articles, which in a sense meant the interest of the tithe. This tax laid a heavy burden on the peasants, and like the wealth tax, it was abolished in 1944 after an application of two years.

[119] Bulutoğlu, *op. cit.*, p. 8 – 9.
[120] Ibid., p. 9.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Property tax was collected over the production of olive oil. This tax was also abolished in 1947 after being collected in the form of articles since 1942.

At the end of WWII, the alterations made in tax legislations during the years of war had "complicated the Turkish tax system and made it difficult to manage"[121]. These extraordinary taxes were applied for a while as explained above, and were later abolished as reform work began on the tax system.

3.10.1 Tax Auditing

In the period between 1939 and 1949, tax inspection departments in the Ministry of Finance were reinforced. *Heyet-i Teftişiye-i Maliye*,the Commission for Financial Inspection of 1879 was put into operation again on July 23rd 1921 after the formation of the Ankara Government in 1920. The duties of the Commission were not restricted to the ministry of finance; it could audit all institutions with general, supplementary, and proprietary budgets.[122] On March 28th 1945, with the legislation numbered 4709 a commission of auditors reporting directly to the ministry of finance was formed to audit tax returns. "During the Republican era the most influential institution to scrutinize accounting documents and book records for tax purposes has been the Commission for Financial Inspection. Experts trained within this commission, have successfully undertaken jobs in other government organizations and the private sector as experts and managers". [123]

A third group of tax inspectors is the income comptroller's office. The income comptroller's office was established earlier than the Commission for Financial Inspection. Revenues comptroller position formed with legislation

[121] Bulutoğlu, *op. cit*., p. 10.
[122] Güvemli, *op. cit*., vol. IV, p..637-62.
[123] Ibid., p.671.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

numbered 2996, and with legislation numbered 4644 the condition that those who are to be appointed as revenues comptroller has to be college graduates put into effect, and with legislation numbered 4910 these people are granted the title of income comptrollers. This commission also functions within the central organization of the finance ministry, and the members, together with the financial inspectors, are identified as 'central inspection staff'. A draft was presented to the parliament to gather these three groups of scrutiny under a single title. As far as our study is concerned, the most important responsibility of income comptrollers is to carry out all kinds of tax inspection to the taxpayer.

3.10.2 Professional Organization Activities between 1939 and 1949

During this period, Güvemli indicates that

> the number of managements able to employ dependent accountants was around three thousand, one thousand of which were industrial facilities. When greater state managements are taken into consideration, this number could be somewhere between three and four thousand. When independent accountants and those among ministry staff are included, the number of accountants with higher education does not exceed five or six thousand. Among these, four or five thousand are graduates of higher education. To obtain the total number of accountants in this country, we have to add to this last number, six thousand graduates of Commercial High Schools. [124]

In the 1930s, as the infrastructure of the state organization was being formed (such as the Central Bank of the Republic of Turkey, Sümerbank and Etibank) the task of structuring accounting as a professional organization was undertaken. In 1923 the Ministry of Commerce prepared a text related to the profession of accountancy, but fell short of presenting it as a draft proposal. In 1938, when the attorney code was accepted, the ministry of Commerce again prepared a draft titled ' accounting

[124] Güvemli, *op. cit*., vol. IV, p.21.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

expertise', and this was negotiated in the parliament but "faced with the opposition of the barrister members of parliament, could not become law based on the fact that it would grant accounting experts the right of legal representation". [125]

The actual reason why accounting could not become a legal professional organization was that the country had just entered the phase of economic development, that there were not many qualified accountants, and there was the absence of large-scale private sector businesses. The professional accountants organization was possible in the 1980s when the circumstances had become favourable.

The number of accountants might seem to be adequate at first, but the nationwide distribution was not equal. Accountants were clustered in big cities such as Istanbul, Izmir and Ankara where big businesses were located.

3.11 Turkish Economic Congress – 1948

The second 5-year plan covering the 1938–1942 period could not be applied for reasons such as the war, post war arrangements in the tax system, and the move towards a multi party regime in 1946. This necessitated an economic development. Twenty-five years after the Izmir Economics Congress, and initiated by the Istanbul Trade Association, Istanbul Chamber of Commerce, Turkish Association of Economists and the Turkish Economic Institute, the Turkish Economics Congress gathered in Istanbul on November 22-27 1948 to discuss the ways to accelerate an economic development. [126] Among the objectives of the Congress was "to hold discussions on the financial and economic problems of the country, and to take

[125] Güvemli, *op. cit*., vol. IV, p. 674.
[126] Kılıçdaroğlu, K. *1948 Türkiye İktisat Kongresi*. 2nd ed. Ankara: SPK yayını, 1997: 5.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

decisions on the necessary measures for the development of national economy in general." [127] The main focus of the meeting was statism, state intervention, foreign trade regime and tax reform. In terms of accounting, the congress was successful in holding substantial discussions compared to previous congresses.

In this congress, they sought to change the trends of the 1930s and proposed "the state to discontinue its managements that did not qualify as public service, to cease opening new plants and making enlargements, to transfer its current businesses one by one to private enterprises and cooperatives, to pursue trade liberation, and to accomplish tax reform". Among these proposals, the tax reform would be realized in 1949 but the rest would be conceived only in the late 1980s.

The proposals concerning a tax reform can be summarized as

- Expansion of the tax return system to achieve tax equality within rational limits,
- Reduction of tax ratios to limits that will put less pressure on the tax payer,
- Acceptance of the principles of progressive tax system in order to achieve equality and proportion in financial sacrifice,
- Presentation of single tax return rather than separate ones for tax income,
- Tax exemption for agricultural income,
- Ratification of simple bookkeeping for tax payers who have relatively larger production capacities than merchants and industrialist who have extensive capacities, are excluded from this application,

[127] Ibid. p.8 -10.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Determining and announcement of accumulated depreciation fund ratios, for at least a period of three years, by the mutual decision of related ministries and representatives of chambers of commerce,
- Allocation of renewal funds by establishments, not exceeding 2% of their permanent capital funds, to be used in the three years following the date they are apportioned,
- Approval of a five year period for loss transfer
- Postponement of penalty codes related to type and format of tax return and bills in the organization of books for three years, (unless they contain intentional false tax returns) following the publication of the law to be prepared. [128]

Among those who presented this proposal were Professors F.Neumark and Osman Fikret. Arkun[129]. Almost all of these proposals found place in the tax codes of 1949.

As mentioned above, during this congress the accounting practices in our country during that period were thoroughly discussed. Professor Ismet Alkan, in his paper he presented to the congress, stressed the point that "the merchant or the businessman should be able to account for his business dealings openly and with ease in order to calculate the odds, to see into the future, and to have his business inspected and analyzed… Unfortunately, our community is yet in a primitive state in terms of accounting and issues related to it. It is claimed that the number of accountants is inadequate and paying them is unnecessary. In this country there are more than 25 schools of commerce and even today, we have a sufficient number of

[128] Kılıçdaroğlu, *op.cit*., p.15-20.
[129] Güvemli, *op. cit*., vol. IV, p.34.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

accountants. Payment made towards accounting is never irrelevant expenditure because the money spent on such practices will generate much more profit." [130]

Alkan indicates that the post war market conditions in Turkey were not mature enough to consider accountants essential. The volume of private investment, competition terms in the market, the necessity of productivity and the number of investors were not high enough to demand any accounting data. This supports our hypothesis that during this period the formation of accounting practices were not done according to market conditions or the theory of accounting but rather according to tax laws imposed by the regulations.

Professors Alfred Isaac and Aziz Balkanlı stated in their papers that "a tax system which does not enhance the accumulation of capital funds and which results in a damage to capital funds is nothing but a menace. An income tax code helps develop capital, and an expense tax code taxes the sending of capital funds. Therefore, expense taxation should be preferred over income taxation."[131] This opinion would be taken into consideration in the 2000s.

Ismet Alkan claimed that in Turkey, there was adequate number of accountants, while Nejat Muhsinoğlu in his paper presented at the Zonguldak Chamber of Commerce claimed the opposite, complaining about the "scarcity in accountant personnel". The outcome of these two papers is that accountants were dispersed unequally around the country.

[130] Güvemli, *op. cit*., vol. IV, p. 36.
[131] Ibid., p. 37 -38

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

3.12 Training in Accounting, and Developments in the Publication of Accounting Books

New universities were established to answer the country's need for well-educated personnel. Dating back to 1773, "*Yüksek Mühendis Mektebi*, the Higher School of Engineering" acquired the name in 1928 and was annexed to the Ministry of Education. Later in 1944, with the law numbered 4169 changed its name to "*İstanbul Teknik Üniversitesi*, Istanbul Technical University", becoming the second university of Turkey. In 1946, with the law numbered 4936, universities became legal entities.

Ankara School of Law was established in 1923. In 1935 the Language, History and Geography Faculty, in 1943 Ankara Science Faculty, and in 1945 Ankara Faculty of Medicine were opened. On November 13th, 1946 Ankara University was officially opened as the third university of Turkey. Later in 1948, Agriculture and Veterinarian Schools, and in 1949 the School of Theology were annexed to this university. School of Political Science moved in 1935, joined Ankara University in 1950 as the Faculty of Political Science.

Until the end of WWII there were no schools of higher education in Izmir, but there was a strong need for accountants. To answer this demand, *Yüksek Ekonomi ve Ticaret Okulu*, the School of Finance and Trade was opened in Izmir in 1945. Hence, the fourth school placing importance on accounting opened its doors. These schools were School of Finance and Commerce in Istanbul, Istanbul University Faculty of Economics, Ankara University Faculty of Political Science, and Izmir School of Finance and Commerce. These four schools remained as pillars in the education of accounting until the 1960s. The number of university students between

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

1950 and 1951 was 24.815 while the number of students in these four schools was 3.471. [132]

During the years between 1923 and 1950 three universities were opened in Turkey. The number of faculties and schools increased by four, from 9 to 34. The number of accounting students was 0.61 per a population of 10.000 between 1935 and 1936, increased to 1.44 in 1945-1946, and to 1.65 in 1950-1951[133]. Higher education in accounting presented a parallel development to higher education in general.

As explained in first chapter, at the beginning of the 20th century accounting textbooks were no longer translations; they had become copyrighted material. They can be catalogued as follows,

The accounting textbooks published in the Arabic script between 1910 and 1928:

* Serkis Nihad, *Usul-i Muhasebe-i Maliye yahud Banka, Borsa ve Sigorta Muhasebesi İstanbul, Matbaa-i Amire* Financial Accounting or Banking, Stock Exchange and Insurance Accounting, 1914, Istanbul, Imperial Printing House, 1914, 330 pages.

The first part of the book describes banks; the second part talks about bookkeeping and the accounting system. [134]

* Serkis Nihad, *Defter-i Kebirli Yevmiye yahud Amerikan Usulü,* Journal with Ledger or American Style Accounting, Istanbul, 1914, 70 pages .

A first in its subject, it was adapted from a German book but the examples are taken from our country. The book opens with a detailed explanation of the double entry method. [135]

---

[132] Güvemli, *op. cit*., vol. IV, p. 390-391.
[133] Turkish Statistical Institute, *Milli Eğitimde 50 yıl, 1923- 1973.* Ankara: TSI publication, 1973.
[134] For details See. Güvemli, *op. cit*., vol. IV, p. 199 -223.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

* Serkis Nihad, *Muhasebe-i Tüccariye Mebadisi,* Commercial Accounting, Istanbul 1920.

The first part of the book describes basic concepts and expressions used in accounting. The second part explains accounts and their complimentary operation. The third part is dedicated to ledgers, record keeping and transference between ledgers. The book is a textbook on financial accounting. [136]

* İbrahim Fazıl, *Ameli Usul-i Muhasebe-i Ziraiye ve Çiftlik Muhasebesi*, Agricultural Accounting, Istanbul, 1920

The author explains the importance of accounting and describes the advantages of the double entry method but holds that in agricultural managements the single entry method is better. He describes the system he developed by using this method, and gives examples. [137]

* Serkis Nihad, *Sigorta Muhasebesi –Harik, Nakliyat, Hayat,* Insurance Accounting – Fire, Transportation, Life, Istanbul, 1926, 324 pages.

Prepared as textbook, it also answers the needs of practitioners. The book functions as specialization on accounting. It consists of seven chapters. [138]

* Kirkor Kömürcüyan, *İhtisas Muhasebeleri,* Accounting of Specialization,
Istanbul, 1931, 228 pages.

The book was written for students and practitioners; includes general knowledge, and deals with issues of company, industrial, agricultural, and banking accounting systems. [139]

---

[135] For details Güvemli, *op. cit*., vol. IV, p. 223 – 235.
[136] Ibid., p. 236 For details see o*p.cit.*, p. 236 -249.
[137] Ibid., p. 250 For details see o*p.cit*., p. 250 -257.
[138] Ibid., p. 257 For details see o*p.cit*., p. 250 -279.
[139] Ibid., p. 280 For details see o*p.cit.,* p. 280 -290.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

* Serkis Nihad, *Devlet Muhasebesi Usulü*, Procedure of State Accounting, Arkadaş Publishing, Istanbul, 1935, 200 pages.

The book describes the history of finance of Turkey and briefly analyzes the financial establishment after the Law on Financial Accounting was accepted. The author explains the budget and treasury accounting in a more simplified language. [140]

* Rasim Hilmi (Saydar), *Envanter ve Bilanço Tetkikleri,* Study of Inventory and Balance Sheets, Güneş Matbaası Istanbul, 1933-1934

The author explains in detail the accounting practices with examples, pioneering in the analysis of financial statements. The statements were selected among national establishments such as Alpullu Sugar factory, T. Is Bank, Central Bank of the Republic of Turkey. [141]

During the period of 1930-1950 Turkish and foreign academicians posted in Turkey began to write more books compared to earlier times. Selections of books which were written at the time and have had a lasting influence are mainly:

* *Cevat Yücesoy,* Lessons in Accounting I 1942
* *Cevat Yücesoy,* Lessons in Accounting II 1942
* *Cevat Yücesoy,* Bank and Industry Accounting 1947
* *Cevat Yücesoy,* Company accounting 1948
* *Osman Fikret Arkun* Accounting Theory and Practice 1944
* *Rasim H. Saydar* Inventory and Balance Sheet 1946
* *A. Nuri Aker,* Accounting and Documents 1930
* *A. Nuri Aker,* Journal with Triple Accounts 1944
* *A. Nuri Aker,* Trade Accounting 1946

[140] Güvemli, *op. cit*., vol. IV, p. 291 For details see *op. cit.*, p. 291 -306.
[141] Ibid., p. 310 For details see *op. cit.*., p. 306 – 310.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

* *A. Haydar Erişkin* The Balance Sheet and its Analysis 1947
* *Alfred Isaac* Theories on Accounting 1941
* *Alfred Isaac* Revision and Control in Managements 1944
* *Alfred Isaac* Accounting Application 1945
* *Alfred Isaac* Insurance Accounting 1948
* *Sadri Anar* Balance Sheets in terms of Specific Law and Accounting Codes 1939
* *Süheyl Derbil* Accounting 1938

During this period translations of foreign publications were continued.[142]

A study in the publications of the period between 1940-1950 reveals these major points[143]:

- The primary characteristic of this period is that academicians like Serkis Nihad and Kirkor Kömürcüyan of Armenian origin, who took part in the education of accounting and who wrote books on accounting, withdrew from active writing career due to old age and gradually left their places to Turkish writers and educators not of the minority status, and
- The fact that the number of instructors and institutions of higher education on accounting increased as did the number of books.

[142] For details see Güvemli, *op. cit.*, p. 314 – 340.
[143] Ibid., p. 341-342.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

3.13 Developments in Chambers of Commerce and Industry and Tradesman Associations

In Western Europe and North America the most effective institutions that help develop accounting were accountants association, chambers of commerce and industry and/or related ministries. Their duty is "to work towards the improvement of business sectors that their members generate. Besides, development in commercial and industrial establishment boosts the demand for accounting" [144] and the responsibility to aggravate accounting falls, naturally, on the chambers of commerce and industry.

During the times of the Empire and the Republic, the development of the chambers of commerce and industry moved in line with the economic life of the nation. The first chamber of commerce in Istanbul, "*Derseadet Ticaret Odası",* was opened in 1879. Its objective as stated in article 9 of its organization chart was "to take all precautions necessary for the improvement and the development of the tradesman and the industry, to make reforms and modifications… To publish a trade newspaper, to collect essential information for the improvement of trade to present to the Ministries of Trade and Agriculture, and to make the required applications. [145] Thirty-two years after the publication of this regulation, a second code was published in 1911 to promote chambers of commerce and industry around the country. This code appointed the same duties to these chambers. In 1910, the regulation on the formation of the tradesman's associations was issued, which later in 1913 went through certain changes.

[144] Güvemli, *op. cit.*, p. 57.
[145] Ibid., p.60.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Chambers of commerce and industry need to keep proper accounts of chambers attached to them in order to accumulate data about the sectors they represent and to base applications to the state on these. It is not easy to say that chambers of commerce and industry actually fulfill their duty. For this reason, organizations such as the State Planning Organization of Turkey and State Institute of Statistics have chosen to acquire data through their own surveys. The Union of Chambers has been assigned duties such as to follow bills of exchange or drafts that have been dishonored, and to approve "inventory and balance sheets", During the Republic era the duty of following dishonored bills and drafts was transferred to the "intelligence" departments of banks.

Güvemli states, "In the West, the development of accounting related to the demands of the managements was made possible through the cooperation of chambers of commerce and industry with the Ministries of Trade and Agriculture. This is what was not done in the first half of the 20th century in Turkey. Attempts made by certain managements and capital groups to improve accounting practices to meet their own needs have been limited and meager." According to Güvemli, the reason behind the exiguousness of the chambers of commerce and industry is that "the individuals and the businesses of the private sector utilize accounting not for their own benefit but to reckon with the government. Entrepreneurs kept private record (unofficial books) of their actual performance." [146]

The inefficiency of the chambers of commerce and industry not only slowed down the development and a wider usage of accounting practices, but also was "a major factor in the unrecorded economy reaching immense levels." [147]

[146] Güvemli, *op. cit.*, p. V.
[147] Ibid., p. V.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

3.14 Tax Reforms - 1949

Vergi Usul Kanunu, The Tax Procedure Law, together with the income and corporate tax legislation, which is in application today and which is in line with contemporary applications, was accepted in 1949. It will be conducive to explain the environment that set the stage for this reform that would be very effective in terms of revenue and accounting practices.

- The process that began in the 1930s was interrupted by WWII, and to start the process again there was the need for a tax system that was fair, balanced and that encouraged investment. On the other hand, the second *Teşviki Sanayi Kanunu*, Inducement of Industry Law accepted in 1928 had expired in 1942 but could not be extended due to the war.
- The 1926 income tax law

> classified taxpayers as those who were bound by tax decleration and those taxed on contract basis. Profit-earning tax code subjected a broad range of taxpayers who would be taxed on their real income through tax return on the basis of balance sheet method. It was difficult to implicate such an advanced tax system in a country not yet industrialized, a bigger part of its population dealing in agriculture, and a huge portion of its national income still produced by agriculture. It was also a challenging but a doomed reform attempt to shift the burden of tax to a trade and industry segment that had not accumulated any capital, and were still at the level of tradesmanship and craftsmanship.[148]

In fact, the profit-earning tax was changed after one year of practice. The change "required the balance sheet procedure from companies, but other taxpayers would be taxed based on their annual revenue (chiffres d'affaires). Secondary class taxpayers were taxed according to a certain portion of the

[148] Bulutoğlu, *op. cit.*, p. 27.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

rent for the work place and external indicators." [149] In 1934 income tax became scheduled tax (cedulaire). As is known, the scheduled system does not consider income as a whole, but taxes each type of income (industrial, commercial, labor, self employment, estate and real estate income) differently. According to this law, taxpayers were divided into three groups. Those who submit tax return, those taxed by external indicators on presumption, and those taxed by lump-sum taxation. A very small group of taxpayers (constructors and transporters) were taxed according to turnover (chifres d'affaires). Those who paid 2000 lira rent annually were taxed by tax return system. The net income of taxpayers submitting tax return was assessed according to the balance sheet method. Tradesmen and craftsmen, who were not submitting tax returns and had a specific place of work, had their shops taxed according to the gross income determined by the ministry of finance depending on type of work, and town population. In order to enhance the application of these laws and to collect more taxes, many alterations were made and the principle of minimum liability was accepted. This principle comprised different business segments, and tax was paid according to the location and the number of workers employed, even if the firm operated at a loss. [150] Between 1931 and 1935, the financial depression tax applied to paid employment, the balance tax, the aid to air force taxes increased the taxation of wageworkers, making it very complicated. The high inflation encountered during WWII also damaged the tax system.

- In 1945, the ending of the war, Turkey's membership in the United Nations, the World Bank, and the IMF, entry into a multi political party system, the

[149] Bulutoğlu, *op.cit.*, p. 27-8.
[150] Ibid., p. 29.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Democrat Party embracing liberal economic policies instead of statism, and the open suggestion of a new tax reform made in the industrial congress in Istanbul urged the government to form a Tax Reform Commission.

- These developments made it necessary to thoroughly review the income tax. The Tax Reform Commission proposed to totally abolish income tax and to switch over from the income tax system applied in the Latin American countries to the one employed by Anglo-Saxon and Germanic countries. To this end, the Income Tax Law numbered 5421 was issued to real person and partnership companies. Corporate Tax Law numbered 5422 to tax joint-stock companies, limited and cooperative companies, and Public Economic Organizations; and the Craftsman Tax Law numbered 5423 to tax tradesmen were accepted on June 3rd 1949 to be valid from January 1st 1950. Also in 1949, the Tax Procedure Law numbered 5432, regarded as the constitution of all tax laws, was accepted.

With the new tax laws, taxation of corporations was being consigned to another law, leaving the taxation of the individual within the income tax law. The tax was also collected from the total income (unitary system). The scheduler system of income tax was being abandoned because it taxed separately trade income and individual business earnings, and vastly taxed incoming profit from movable capital while fully exempting incoming profit capital from real estate. From then on individual businesses would total up their income from different sources, evaluate their tax debt over the sum and declare it to the finance office with a tax return. The principle of presumption was waived, and the principle of tax return was accepted.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Smaller businesses were exempt from income tax but liable to another craftsman tax.[151]

These three laws that would have an impact on Turkey's next sixty years and would significantly influence accounting practices will be studied in detail in the third chapter.

3.15 Double Entry Practices in Various Corporations During the Period of 1929-1945

To illustrate the approach to accounting during this period, some examples of the practices we were able to compile are presented in the appendix of this study. In Appendix 1, the balance sheet of 1934 with the profit and loss account of the Eskisehir Sugar Factory founded in 1933 is given. When analyzed closely, the balance sheet is not specific in differentiating entities as current and noncurrent or classifying liabilities according to date. Memorandum accounts, which are not actual accounting transactions, were also included in the total of the balance sheet. Although the assets begin with fixed assets, the order of liquidity was not followed. The profit and loss account of the same corporation does not contain any details. On the right side of the table there is the total of gross profit, and on the left administrative expenses. This table is not an income statement and is far from providing information to third persons.

In Appendix 2, the 1949 balance sheet, profit and loss table and a supplementary profit and loss table for the Turkish Sugar Factories is given. In these financial statements the effects of the accounting system Sumerbank utilized in 1938

[151] Bulutoğlu, *op.cit.*, p. 30.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

are clearly seen. In the balance sheets assets begin with fixed assets, and passives with capital. The development here is striking. Firstly, the balance sheet is divided into three as fixed assets, current assets and other assets. Accumulated depreciation is shown as negative asset in the actives of the sheet, which is an advanced form of data display for its time. Current assets are not given in the liquidity order. However, the data (insured assets and their costs) that should be in the footnotes are in the balance sheet. Memorandum accounts are entered after the general assets total. On the liability side of a balance sheet the division between equities and the liabilities is not given. The liability side of a balance sheet is divided into seven groups. Capital funds and reserve funds are two separate groups. Actually, these are two important subtitles of equities. The interests recorded in third group, although they are active contra accounts, are given on the liability side of a balance sheet. Liabilities are also stated, without dates, in two parts as debt to banks and to other groups. The sixth group is ambiguous, and records under the title “other passives” what might be liabilities that comprise 25% of the total passives. Periodical profit takes place in the seventh group on the liability side of the balance sheets, separate from equities and under the title “net operating profit”. The development and the change in the accounting practices the Sugar Corporation has achieved in the 15-year period is interesting. The development in the 1949 income statement of the corporation is more interesting. The evaluation table of profit and loss in Appendix 2 is far from a modern income statement. In this table, on the right side there are, fittingly, profits from a variety of sources, on the left there are losses and expenses due to a variety of reasons. General management and marketing expense details are not stated; 50% of total expenses are recorded as ‘other expenses’, which gives no idea about the corporation’s expenses. However, it appears to be a more advanced table than a

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

single entry of profit and loss. Another similar example would be the balance sheet and the profit and loss table dated Dec. 31st 1950 of *Gemlik Suni İpek ve Viskos Mamulleri Sanayii*, Gemlik Synthetic Silk and Viscose Products Industrial Corporation (See App.3). Here, the balance sheet is simple in form, using 'profit/loss sheet' instead of 'profit/loss account', which is more appropriate to the process.

It is clear that the financial statements of corporations tied to Sümerbank are of an advanced level compared to other facilities. *Sümerbank Birleşik Pamuk İpliği ve Dokuma Fabrikalari Müessesesi*, The Cotton Thread and Textile Company's balance sheet and profit/loss account dated Dec. 31st 1939 is given in App.4.

The balance sheet is arranged in the German system - from the least liable to the most (fixed assets, real assets, liabilities and cash value). The interesting fact here is that liability is recorded like an asset in the balance sheet's active. In the passive, firstly capital, then reserves and then mutual liabilities are recorded. This is also based on the German system. However, instead of deducting accumulated depreciations from active contra accounts such as allowance for uncollectible and allowance for inventory, they were recorded as resource on the liability side of the balance sheet, which interestingly indicates the approach of the period. This approach will find its place in the tax legislation of 1949.

Sümerbank Joined Cotton Thread and Textile Company's balance sheet and profit/loss account dated Dec.31st 1939 given in App.4 reveals that although it may be a profit-loss account, it is closer to an income statement. Here, sales are recorded as 'sales account debit balance'. Sales costs and running expenses represented in the table as "sales account, credit balance. The interest received and other profits are on the right side of the table and the interest expenses, other expenses and various losses on the left side. This table is more informative than the others.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The banks in Turkey have advanced balance sheets due to the fact that they have a past and are in contact with the West as corporations. The balance sheet and profit-loss account dated Dec.31st 1925 of Türkiye Is Bankasi is given in Appendix 5. On the balance sheet the words 'matlubat' and 'duyunat' are used for active and passive. In the active, the capital liabilities of partners, cash ratio, stocks and bonds, vouchers, Loans, other credits and memorandum accounts are recorded. On the liability side, capital, deposit accounts, profit and memorandum accounts are recorded. In the profit-loss account, on the left side (zimmet) there are general expenses and accumulated depreciation, and on the right side (matlup) are interest and commission income, portfolio profit, foreign exchange profit and previous year profit. The main expenses of banks, interests, are not observable; most probably they were included in the general expenses.

Upon inspection, Türkiye Is Bankasi balance sheet and profit-loss tables dated Dec.31st1928 reveal that they are not different from the tables of 1925 (See App.6). However, the Code numbered 2243 of June 5th1933 states, "banks prepare their three monthly account extracts and their annual balance sheets according to the formulation decided upon jointly with the Ministries of Economy and Finance". [152] Türkiye Is Bankasi balance sheet and profit-loss tables dated Dec.31st 1935 and prepared in accordance with this article are given in Appendix 7. The balance sheet uses the words active and passive; the active accounts are more detailed. Similarly, the profit-loss tables are prepared with more detail. Especially in the expenses section general expenses are separated into sections as salaries and wages, administrative expenses, taxes and duties, and other expenses. Accumulated depreciations and interests offered are displayed on another chart.

[152] Taşçıoğlu A. *Cumhuriyet Dönemi Bankalar Kanunları ve İlgili Yasal Düzenlemeler.* Istanbul: T. Bankalar Birliği Publication, 1998.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

This law was in effect for a very short time, replaced by Code numbered 2999 of June 9th 1936. The most important change this law brought about was the deployment of 'sworn bank auditors'. The articles on the organization of financial statements are almost identical. [153] Sümerbank's balance sheet and profit/loss account dated Dec.31st 1938, prepared by its banking sector, is given as an example (See App.8). Inspection reveals that Sümerbank's balance sheet is more detailed and closer to modern bank sheets. The profit-loss table is still far from income statements of today. Nevertheless, both income and expenses have been displayed in detail.

It can be concluded that the banking sector is far more advanced than other sectors in accounting practices and Sümerbank prepared a more detailed balance sheet compared to İş Bankası.

3.16 Evaluation of the Period 1923-1945 in Terms of Accounting Practices

This is a period in Turkey when the double entry accounting system developed and found wider application. The major reasons for this can be stated as,

a) Dividends and transaction taxes are to, an extent, based on tax return. Therefore, to prepare a tax return and for a healthy tax inspection, there is a need for properly recorded accounts. Companies used to keep accounts more for taxes rather than administrative necessity.

b) The Turkish Trade Legislation of 1926 required companies of certain capacity to keep proper record of their accounts. Otherwise, to use records as evidence in the company's favor would not be possible. Since the trade legislation regulated the accounting system in a detailed manner, it was

[153] Güvemli, *op. cit*., vol. IV, p. 506.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

effective in the extensive use of double entry accounting system during that period.

c) The acceptance of Latin letters and numerical symbols eliminated the need for an accountant to know *siyakat,* the Ottoman style of writing used in treasury accounts and documents, making single or double entry accounting practices easier.

d) The expansion of education in accounting, opening of new universities and having trained accountants also helped double entry system become prevalent throughout the country.

e) Opening of new banks, and these banks giving loans to businesses, accelerated the usage of accounting systems. The banks applied an advanced accounting system and thus contributed to the development of a different kind of accounting system in the financial sector.

f) After the 1930s, a rapid industrialization took place aided by the government. This resulted in new factories which in general were state owned and modeled after Western European establishments. Here, modern accounting practices were put to practice. Since designing and running each factory with its own accounting system would create difficulties in auditing and coordination, Sümerbank, in charge of managing these factories, chose to set up a single chart of accounts and accounting system. This system acted as a model for Turkish applications, including the private sector.

g) Establishing the Prime Ministry Auditing Council helped uniformity among Public Economic Institutions in accounting practices, and pioneered in the field of internal auditing.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

h) Revenues controllers and accounting specialists within the Ministry of Finance broadened tax inspection, making an important contribution to the development of accounting practices. However, this system that became widespread actually served the tax legislation rather than the principles of accepted accounting practices. This influence is still felt today. The private sector has perceived accounting as a requisite of tax legislation rather than a tool for management.

i) Since the number of independent accountants was limited, and the environment not suitable, accountants did not have the ability to organize. An organization of this type would be possible fifty years later. This delay affected the Turkish accounting practices negatively, and as for the evolution of accounting in Turkey, it has been a dissipation of time.

j) Turkish Trade Legislation did not require small businesses to keep books, which prevented to an extent, the broad use of accounting practices. The tax reform of 1949 obligated a limited bookkeeping for small businesses. However, it was far from double entry system because it was basically "business bookkeeping". This system is valid today.

k) During this period publications were mainly copyrighted rather than translations, and the application of the double entry system was explained with examples. Academicians arriving from Germany were also a significant contribution.

l) In Western Europe and North America the institutions that played an important role in the development and application of accounting were professional organizations of accountants, the business world (chambers of commerce and industry), universities and capital market organizations. With

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

the development of economies and emergence of new requirements, regulations in accounting were discussed by these institutions and accounting practices and theories were developed collaterally. Significant economic events (such as the Great Depression) formed a basis for placing the existing accounting practices and auditing within a legal frame; new laws were implemented in this direction. However, in our country chambers of trade, commerce and industry were not diligent in this respect and instead of broadening the application of accounting; they have tried hard to not extend the limits. The fact that professional organizations of accounting and auditing were not established limited the efficiency of accountants. Academic circles, on the other hand, remained educational instead of being leaders and regulators, promoting only the application at hand. During this period, state public enterprises were primary leaders in the development of accounting practices due to the fact that the tax system and its legislation was imperious.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

CHAPTER 4

DEVELOPMENTS IN ACCOUNTING PRACTICES DURING 1945 - 1960

4.1 Political and Economic Developments Following the Second World War:

4.1.1 Worldwide Political and Economic Developments

The Second World War was the cause of many changes. In 1944, to bring the war to an end, the United States and the allied forces of Europe began a grand scale attack on Germany from the west (France), from the south (Italy), and from the Soviet Union (Poland). As a consequence, the Soviets saved Eastern Europe from German occupation, and the allied armies under US command freed Western Europe and Italy. At the end of the war, the allied forced occupied Germany. Berlin was divided into two and Germany into four sections. When the war was over, both the USA and the Soviet Union imposed their own political and economic systems on the countries they occupied, and took these countries under their own economic and political control.

There were also developments similar to those in Europe in China. With the end of the Japanese occupation, the “nationalists” and the “communists”, who had been united up to that moment in their struggle against the occupation, split into two groups and began to struggle against one another. After a long civil war, the nationalists were defeated and took refuge on the island of Formosa. Thus the communists dominated the Chinese mainland and the People’s Republic of China was founded.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

To prevent the spread of communism in Europe and to neutralise the adverse effects of the war with speed, economic and military assistance was applied in European countries by the USA under the name of the Marshall Plan. Turkey also benefited from this assistance. In order to be exempt from tax on this assistance, on 1st January 1948, the "law on tax exemption from assistance to be made to Turkey by the USA" numbered 5164 was passed[154]. It was evident that Marshall aid in itself would not be enough to prevent Soviet expansion in both Asia and Europe; in 1949, the United States, Canada and the western European countries formed the North Atlantic Treaties Organisation (NATO). As the reason for founding the organisation was the defence of Western Europe, Turkey and Greece were not brought into the organisation right from the start.

Moreover, important changes were being made around Turkey. After the war, Rhodes and the nearby islands that were in Italian hands (Twelve Islands) were given to Greece. In Syria and Iraq the mandatory regimes came to an end, and these countries won their independence. The Arab – Israeli war commencing in 1948 ended with an Israeli victory and the founding of the Israeli state. In the Second World War the importance of oil was already emerging, and the United States and Britain entered into various political undertakings in order to secure the oil fields under their control in the Middle East. In Iraq a government was founded that was loyal to Britain. In Iran, the Musaddık government that wanted to nationalise oil was overturned and Shah Rıza Pehlevi, supporter of the West, came to power.

[154] Erginay A. *Tax Law*. 7th ed. Istanbul: Sevinç Printing, 1978: p. 18-9.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

4.1.2 Developments in Turkey's Foreign Policy During the Period 1945-1960

However much the Turkey of the İnönü era tried to maintain Atatürk's policies of getting on with the neighbours, making no claims on them, and protecting its status in the world, the existing balance of power would not allow this to happen.

With the end of the Second World War, the Soviet Union commenced different practices with Turkey. Joseph Stalin, the Soviet leader of the time, wanted to revise the status of the Straits and regain Kars-Ardahan-Sarıkamış that were lost in the First World War. Turkey immediately rejected these demands. Turkey sought western support, particularly from the USA, to counter the Soviet demands. This political development was the starting point of the tightening of the relationship between Turkey and the USA.

While NATO was being established in Europe, the Soviet Union and the countries under its control formed the Warsaw Pact. A "cold war" began between the Soviet Union and the United States and Western Europe, countries that had been allies during the war. This tension was the reason behind the proliferation of nuclear weapons and the development of missile systems. The USA, who felt the need to get a closer control on the Warsaw Pact and the Middle East, developed economic, political and military relations with Turkey. Turkey was also closely following other developments in the world, and in the same way that it became a member of the United Nations towards the end of the Second World War, it became a member of the World Bank and the International Monetary Fund (IMF).

The effects of the changes of power as a natural consequence of the multi-party system after 1950 were also reflected in foreign policy. On 14th May 1950,

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Turkey held its second multi-party general election. The Democrat Party came to power with a large majority. The Democrat Party was in favour of giving priority to relations with the USA. At this point, the Korean War broke out. The government answered the United Nations call and decided to send a brigade to Korea without seeking parliamentary approval. During the course of this war, Turco-American relations were further strengthened. The USA put the J. Foster Dulles Doctrine into practice to blockade the Soviet Union from the South. At this point, Turkey and Greece were accepted into NATO membership in 1954. The foundation of CENTO, envisaged as fostering economic development between Turkey, Iraq and Pakistan, was again pioneered by the USA. All these developments were responsible for putting Turkey's foreign policy into an orbit angled towards the USA. This interaction did not just stay at the level of external politics, but also overlapped into the economic field.

4.1.3 Changes Within the Structure of Turkey

4.1.3.1 Transition to a Multi-Party System

Developments in the world at large had the effect of causing a reorganisation within Turkey, and, for the first time in the world, a single party regime adapted to a multi-party democracy by its own wish[155]. When the Democrat Party was formed by Celal Bayer, who was the last prime minister of Kemal Atatürk and left the Republican Peoples' Party, Adnan Menderes, Refik Koraltan and Fuat Köprülü, and it took part in the 1946 elections, the transition to a multi-party state, which had been

[155] Kongar, Emre. *Turkey Towards the Twenty-first Century*. Istanbul: Remzi, 1998.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

attempted twice since the founding of the Republic, was, on this occasion, successful. The newly founded Democrat Party was a party that sought to implement a liberal economic policy as opposed to state socialism, and that envisaged gaining the economic backing of farmers and villagers. The Democrat Party managed to get into parliament in spite of not getting in the 1946 elections.

4.1.3.2 Post War Intolerance of the Single Party Regime

The Peoples' Republican Party managed to stay out of the Second World War, but keeping an army of more than a million soldiers armed during the six-year war and the possibility of joining the war effort at any moment meant that all economic resources had to be used for this purpose and agricultural production slumped. As a consequence of this, basic food products such as bread and sugar were rationed; as importation could not be made, a number of products were sold on the black market and economic stability vanished with a five-fold price increase in four years. Indirect taxation was increased in this period to counter rising public spending, even going down the road of arbitrary application of assets taxes like the opportune property tax. The war did not just put an end to economic stability, but also impoverished workers, villagers and tradesman who were economically vulnerable. On account of this, various reforms were introduced to bring about economic development, as in the 1930s. In 1944, the land reform law was passed, and land distribution was made to farmers. This act was to lead to big landowners supporting the Democrat Party. The Republican Peoples' Party emerged as the leading party in the 1946 elections. The success of the opposition party, the Democrat Party, at the ballot box served as a serious warning from the electorate to the Republican Peoples'

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Party about the effects of other economic and social changes (rising inflation, hardships caused by the war economy, heavy taxation, and road taxation on villagers, for example).

4.1.3.3 Industrialisation and Changes in Demographic Structure

In the 1940 – 1950 period, military factories were set up to provide the army with canons, guns, bullets and other munitions of war, and these factories were organised as the Machine Chemical Industry Foundation (MKE). These factories attracted a great flow of labour into the regions they were established in, like Karabük, for example, and the regional density of population and demographic structure was changed. The population of Ankara rose steadily, and Kırıkkale, which at the beginning of the 1940s consisted of a village with a few hundred houses, had grown into a large city by the beginning of the 1950s.

4.1.3.4 A Break from P.R.P. Policies

When the Democrat Party came to power, various promises were made to the conservative sector. The first thing that was done was to give permission for the call to prayer to be made in Arabic again instead of in Turkish. To cater for the needs of imam (prayer leaders) and hatip (orators), "İmam-Hatip Schools" (vocational religious high schools) were opened. There was a ban on using words of obvious Pure Turkish origin on the radio.

Regular importation of goods was not possible because of the Second World War, and the importation that was done was by means of the quota and clearing

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

system in use since the 1930s. As a result of this application, there was an accumulation of gold and foreign exchange stock in Turkey. To meet the demand postponed during the war the Democrat Party liberalised the importation department as of 1951. As well as white goods and cars, tractors and agricultural tools were also imported. The use of tractors and modern agricultural tools, the conversion of meadows and pastures to agriculture, the revival of economic development in Europe, and the sensing of favourable conditions for economic revival in the USA due to the Korean War led to a dramatic increase in the harvests of agricultural produce in 1953. The production explosion in the agricultural sector on which the majority of the population was focussed resulted in the spread of a very positive economic climate throughout Turkey. In this environment, the Democratic Party obtained an overwhelming majority over the Peoples' Republican Party in the 1954 general elections. As the 1924 Constitution was a broad based parliamentary regime held by the parliamentary powers, the Democratic Party had the power to achieve whatsoever it desired.

4.1.3.5 Tax Reform and Commercial Law Arrangements

A comprehensive tax reform was required to bring post-war public finance in order. "It was impossible to counter rising state costs with a tax system based on income tax. The transition from profits tax to efficient higher rate income tax" [156] was compulsory. Accordingly, the Income Tax Law numbered 5421, the Corporate Tax Law numbered 5422, the Tradesmen's Law numbered 5423, and the Tax Procedures Law numbered 5432 passed in 1949 were brought into force as of 1st

[156] Ministry of Finance and Customs. *The Rationale of Turkish Tax Laws, Income Tax Law*. vol. 1: Ankara: 1987: 8.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

January 1950. Thus the most comprehensive and radical tax reform in the history of the Turkish Republic was made.

The influence of the continent of Europe, and particularly of the German system, is clearly manifest in the commission preparing these laws. These three laws dominated and shaped Turkish accounting practices for a period of more than fifty years. The Tax Procedures Law in particular had the nature of being an accounting guideline. For this reason, the way in which the laws in question governed accounting practices will be dealt with in greater detail at a later stage.

On 25th February 1952, "road tax", which was a kind of poll tax that had been applied since 1921, was repealed by the law numbered 5889. The traders' sector became liable for taxation under a separate law in the course of the tax reforms made in 1949. However, the Democrat Party completely abolished this tax by means of the law numbered 6582 passed on 20th May 1955. Hence traders, in common with the agricultural sector, became a sector that was not liable for the payment of income tax. The inheritance tax law numbered 797, which had been in force since 1926, was withdrawn. The loopholes in the said law were closed, and it was renewed and issued as the new inheritance tax law numbered 7338 on 8th June 1959. With the increase in the number of automobiles in the 1950s, private automobile tax was passed on 28th February 1957 under regulation number 6936.

Inland excise duty, in force since 1930, and transaction tax, which had been amended three times in 1931, 1934, 1940 since it came into force in 1927, were abolished and on 13th July 1957 the expenditure tax law numbered 6802 was passed. Similarly, the provisional court payments tax in force since 1910, the consulship charge numbered 1143 brought into application in 1927, and the notary fee law numbered 3538 in force since 1938 were all abolished, and all these charges were

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

updated and pulled together in the charges law numbered 5887 passed on 25th December 1952.

The commercial law numbered 865 that had been in force since 1926 had been applied for thirty years. Its shortcomings that had come to light during its application were rectified, the maritime trade law was included within the framework of the law and having simplified the language of the new commercial law numbered 6762 it was published in the Official Gazette dated 9th July 1956 to take effect as of 1st January 1957. The accounting practices arranged in considerable detail in clauses 66-86 of this law will be dealt with in detail at a later stage.

4.1.3.6 New Enterprises and Structuring

The Democrat Party followed an economic policy that showed a marked departure from state socialism. As a result of this policy, in place of the Peoples' Party's railways policy the decision was made to develop the highways network in Turkey. The American Highway Authority was chosen as the organisational model for the highways.

As mentioned previously, the Democrat Party adopted a liberal economic policy. The programme on their election mandate was to hand over the Public Economic Enterprises to the private sector and this was promised to the electorate. However, in spite of the overwhelming majority in parliament, this programme was not acted upon. The private sector at the beginning of the 1950s lacked the capital to buy enterprises on this scale, and was also devoid of the experienced and educated permanent staff necessary for their management. For these reasons, it was not possible to hand over the public economic enterprises to the private sector.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Meanwhile, agricultural mechanisation and rapid population growth had accelerated migration from the villages to the cities, and shanty-building areas had started to spring up in the environs of cities like Ankara, Istanbul and İzmir. With the acceleration of population growth, the young segment of the population had increased and there was a need for schools and factories.

In a developing economy the first priority was deemed to be commodities and services such as electricity, roads, water, cement, sugar and oil. Road construction was accelerated together with the establishment of highways. Under such circumstances, the government gave up on the idea of privatisation before it started, and to cater for the need for cement and sugar it went down the path of building a cement or a sugar factory in almost every provincial city. In 1953, the Turkish Cement and Earth Industry T.A.Ş. (ÇİTOSAN) and the Turkish Sugar Factories Corporation were founded, but not within the constitution of Sümerbank. The cement factories that came under Sümerbank were also handed over to ÇİTOSAN. To address the need felt for the production of artificial manure by the agricultural sector the Nitrogen Industry Limited Company was established. Again in the same year, Migros-Türk and GIMA (Food and Necessities Turkish Limited Company) were established to retail essential goods needed by the people of large cities like Ankara and Istanbul.

The State Water Works was founded to facilitate irrigation in agriculture and electricity production, and the construction of large dams commenced. The Petrol Department was established in 1941 to cater for the need for liquid fuel. In 1944, oil was discovered on Mount Raman, and a refinery was built in Batman to process this oil. After 1950, the need for petrol increased due to the development of the highways network and the transition in transportation from the rail and seaways to land

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

transportation. The Turkish Petroleum Corporation (TPAO) was founded in 1954 with the status of a private company to search for oil and run the refinery. To accelerate the attempts of foreign companies to find oil in Turkey the “foreign capital incentive law” and the “petroleum law” were promulgated to provide them with special terms.

4.1.3.7 The Agricultural Sector

In the mechanisation of agriculture mentioned above, in addition to the transition to irrigation agriculture and the cultivation of pastureland, the Democrat Party government also undertook various tax amendments and arrangements with new establishments in this sector. In the new income tax law coming out in 1949 the agricultural sector was kept exempt from taxation. While credits at the Agriculture (Ziraat) Bank were increased to support agriculture, the capacity of the Earth Products Office was also increased to support the purchase of agricultural products. Incentives were provided for the founding of producer cooperatives like the Monopolies Administration for tobacco products, the Fisko Cooperative for hazelnut purchase, the Panko Cooperative for sugar beet purchase, Tariş for the purchase of figs, grapes and olive oil, the Çuko Cooperative for the purchase of cotton from the Çukurova region, and the Ant Cooperative for cotton from the Antalya region, and farmers were supported by this means.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

4.1.3.8 New Educational Models

The decisions to provide high school education in all provinces increased the demand for higher education in the period of 1950-1960. To this effect, the decision was made in 1955 to increase the number of universities from the existing three to seven by establishing four new universities. In accordance with the law issued in 1955:

- the Aegean University in İzmir (with the support of Istanbul University)
- the Middle East Technical University of *special status* in Ankara where the teaching medium was to be in English (with the support of the Cornell University in America)
- the Black Sea Technical University in Trabzon (with the support of Istanbul Technical University), and
- the Atatürk University in Erzurum (with the support of the University of Nebraska in America)

were established.

The teaching programmes at the universities in question began in the academic year 1955-1956. Thus the second higher education establishment in Turkey with an English teaching medium was established, the first being Robert College. This step forward by the hand of the state was to lead to the proliferation of other English medium educational establishments in the future, and was to be the subject of various debates, both in academic circles and among intellectuals.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

4.1.3.9 Accounting Education

In 1954, the Istanbul University Institute of Managerial Economics was founded, which like Harvard Business School had a one-year postgraduate programme. In 1955, a group of faculty members of the Istanbul University Faculty of Economics underwent faculty member training on a short course at Harvard University in the USA. The faculty members who were trained in the USA took up posts at this institute.

There was a similar development in the training of public sector employees. There was an exchange of faculty members between New York University and Ankara University Political Science Faculty. In 1952, the Turkish Middle East Public Administration Institute (TODAİE) was established to provide a one-year postgraduate training to public employees of the upper echelons. In 1955, the Ankara University Political Science Faculty underwent a radical change, departing from French educational programmes and adopting American educational programmes.

All these developments resulted in the Turkish higher education system being more closely modelled on American educational institutions. Moreover, scholarships from institutions such as AID, Fullbright, Ford, and Rockfeller gave a number of people the opportunity to study abroad.

One of the important steps forward in accounting was the in-service training provided for public accountants by the public accountants' association founded in 1945. Public accountancy applicants underwent close to a year of intensive training and, having learnt in detail about tax regulations and the accounting system, they gained a practical three-year training working with a qualified public accountant (master) and were awarded the title of public accountant after passing a difficult

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

exam at the end of the three-year period. And even so, that was not the end of it, for the young experts were sent out of the country to improve their knowledge and each public accountant was expected to return with a research project. The public accountants who were trained in this fashion played a noteworthy role in shaping Turkish accounting practices. As the private sector developed, a large number of these experts left public service and used the knowledge they had accumulated in the development of accounting practices in the private sector.

The new tax laws and accounting practices increased the need for private sector personnel. To address this need, "commercial knowledge courses", the entry requirement for accounting, were added into the curriculum of junior high schools, and in addition the number of commercial high schools was increased from 13 schools with 1,776 pupils in the period 1945-1946 to 29 schools with 3,445 pupils in 1955-1960.[157] To provide higher education for pupils completing their secondary education at these high schools and to train qualified accounting personnel the following schools opened:

- the Ankara School of Economics and Commerce in 1955
- the Eskişehir School of Economics and Commerce in 1958

Under the law numbered 7334 issued on 15th June 1959, the schools of economics and commerce in Istanbul, Ankara, İzmir and Eskişehir were upgraded to higher education institutions providing a four-year education under the name of "Economics and Commercial Sciences Academies". This development continued after 1960 and Economics and Commercial Sciences Academies also opened in Bursa, Adana and Trabzon.

[157] Turkish Statistical Institute. *Movements of the Ministry of Education - 1927-1966*
Turkish Statistical Institute. *Movements of the Ministry of Education - 1942-1977.*

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

In addition to the higher education establishments of the state, the special status school, Robert College, opened a business department in 1959. All these developments, *"were an important turning point in the proliferation and development of accounting training in higher education in Anatolia, and in addressing the growing need for accountants."*[158]

4.1.3.10 The End of the Democrat Party Era

The economic policies applied by the Democrat Party, the development boom and the start of big investment in construction, although necessary in a post-war world, caused inflation to rise due to lack of planning and inability to achieve a financial balance; the foreign reserves handed over in 1950 were depleted, even to the extent of restricting imports due to lack of foreign exchange. As Turkey's exports based on traditional products (hazelnuts, figs, grapes, cotton and minerals) could not be increased in a short time due to the nature of the products, a period of product shortage in the economy began and the black market re-emerged. Naturally, the government was aware that the economy had deteriorated. In 1957, it decided to hold early elections. With a little help from the simple majority system the Democrat Party managed to secure another majority in parliament in the elections. The opposition (RPP) had gained strength in comparison with the 1954 elections. The elections did not solve the economic problems. The economic difficulties grew even worse, and the government made a wild devaluation in 1959. While the dollar was at 2.70 TL in 1950, it had gone up to 9 TL in 1959. This high devaluation further accelerated inflation and the social disquiet grew. The opposition became more

[158] Güvemli, op. cit., vol IV, p.393.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

effective in parliament and made demands for the electoral system to be changed to one of proportional representation, for a constitutional court to be established, for the transition to a planned economy, and for the public employee personnel regime to be organised. The government responded to these demands by putting pressure on the opposition and censoring the press. When these measures did not suffice, an "inquiry commission" consisting of 15 people authorised to impose penalties was formed, and the commission began its work. This situation brought the university youth into action. Incidents started to take place at Istanbul University. The government declared a state of emergency in the city and suppressed the incidents with military force. Some student deaths occurred. This caused the incidents to spread to Ankara University. The army saw the situation deteriorating and seized power on 27th May 1960. The president, the prime minister, all members of the government and Democrat Party representatives in parliament were arrested. They were taken to Yassıada for trial in a military court and the majority were found guilty of violation of the constitution. The president, the minister of finance and the foreign minister were sentenced to death and executed. Some interpret this as the true end of the single party era, because the prominent figures of the Democrat Party had been former members of the Republican Peoples' Party and they had brought about the single party culture[159].

Another important development in this era was the founding of the European Economic Community (EEC) by the signing of the treaty of Rome in 1957. Turkey and Greece applied to join this community in 1959. This application resulted in our being accepted as an associated member by the Ankara treaty in 1963 and a twenty-two year transition period to full membership was given.

[159] Kongar, Emre. *Turkey Towards the Twenty-first Century*. Istanbul: Remzi, 1998.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

In the 1950–1960 period, national income per capita increased and there was an economic revival. While the state established new factories, the private sector also started setting up factories on a grand scale. Factories like Bossa, Demirdöküm and Arçelik producing end user goods were established in this period.

4.2 Developments in the Banking Sector from 1950-1960 and their Effects on Accounting Practices:

Towards the end of the Second World War, the private sector showed interest in the field of banking. As a result of this interest, Yapı Kredi Bank was founded in 1944, Garanti Bank in 1946, and Akbank in 1948 to encourage deposits and supply the need for credit of the private sector. In this period, Halk Bank, founded in 1938 to provide credit for the trade sector, was expanded.

As deposit banks, all the banks founded in Turkey gave short-term commercial credit to the business world. However, there was a need for financial institutions to provide long-term credit to enable the private sector to make investments. This subject was voiced at the 1923 İzmir Economics Congress and the 1948 Istanbul industry congress. The possibility of meeting this need was not supplied until 1950.

In 1950, the Turkish Industrial Development Bank (TSKB) was established with the support of the government and the World Bank (IBRD) and with a capital of 12.5 million TL that was mostly provided by commercial banks “to assist in the founding of new private industrial enterprises in Turkey, to help existing foundations to expand and modernise, to facilitate the participation of foreign and domestic

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

private capital in private industrial enterprises founded and to be founded in the country, and to assist in the development of the capital markets".

Among the founding associates of the bank were Türkiye İş Bankası (25%), Osmanlı Bankası (16%), Yapı Ve Kredi Bankası (12%), Istanbul Ticaret Borsası (8%), Istanbul Ticaret ve Sanayi odası (8%), Türk Ticaret Bankası (4%), Selanik Bankası (4%), Türkiye Garanti Bankası (3.8%), and others (19.2%).

The bank extended mid and long-term credit with fixed values of around 60% to private sector industrial foundations, participated in capital, supported new enterprises and provided technical assistance.

The Turkish Industrial Development Bank is also an institution that has an important influence on accounting practices. In order to obtain credit, private sector foundations are obliged to provide information required by the bank. Having obtained credit, the firms have to organise their balance sheets in accordance with the bank's wishes and present documentation and information on a regular basis to the bank to ensure that the firm's position can be closely monitored. In this way, the TSKB ensured accounting practices of a certain standard in the institutions they extended credit to, and the information received constituted a data bank providing data for highly scientific research.[160]

The Turkish private sector was obliged to present information, documents and financial statements in the format required by the bank in order to obtain the credit they needed from the banks. Moreover, this information and documents submitted to the banks were checked by their own information personnel. This requirement was instrumental in putting accounting practices on a higher level. In

[160] The following research can be shown as examples of research making use of TSKB data:
Ertuna, Ö. *Inflation Adjusted Financial Statements Analysis,* Boğaziçi University Press, İstanbul, 1980.
Uman, N. *Inflation Accounting Theory and Application ,* Boğaziçi University Press, İstanbul, 1979.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

addition to this, the preparation of sample financial statements by the Banking Association to which banks were obliged to join assisted in the development of accounting.

4.3 The Effect of the Income Tax Law Numbered 5421 on Accounting Practices:

It is a known fact that the incumbents of income tax are real persons. Real persons resident in Turkey as full taxpayers are liable for taxation on earnings and revenue obtained in the country and abroad. Under certain conditions, real persons of non-residential status in Turkey known as foreign-based taxpayers only pay tax on earnings and revenue derived in Turkey. Real persons are obliged to inform the Ministry of Finance of income derived from various activities in an annual declaration. To make such a declaration it is necessary to have an accounting document and records. This requirement is the fundamental reason why the structure of accounting in Turkey has been shaped by the tax procedures law.

First of all, let's briefly touch on what is understood by the concept of "income". "Income" can be defined as "a person's flow value obtained in exchange for its production factors (labour, capital, land and endeavours). This definition is based on "source theory or flow theory", and at the same time is also called "income in the narrow sense"[161]. There are also those who define income as "a person's net increase in spending power provided that the values of his or her assets remain the same in a given period". This approach is called the 'realisation theory". According to this theory, it is the total expenditure made by a person in a given period plus (or

[161] Bulutoğlu, *op. cit*., p.34-5.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

minus) the net increase (or decrease) produced in the value of his or her assets. This concept is called "income in the broad sense".[162] Income in the broad sense is differentiated from the flow sense (the narrow sense) in two respects. The first of these is that non-mutual enrichments (donations, inheritances etc.) and values obtained without involvement of the production factor (transfers) count as income "in the broad sense". The second of these is that increase in the value of capital (capital earnings) still does not constitute income "in the narrow sense". Although the broad income concept may appear to be the more correct, due to the fact that it is difficult to grasp and measure, tax laws have generally adopted the flow theory (income in the narrow sense)[163].

Turkish Income Tax Law also adopted the flow theory, and income is defined as "the gross amount of earnings and revenue obtained by a real person in a calendar year" (ITL clause 1) and the earnings and revenue counted as income include trade earnings, agricultural earnings, fees, gains from self employment, capital gains on real estate, capital gains on movables, and other earnings and income. (ITL clause 2). It will immediately be evident that increases in the value of capital did not count as income.

However income is defined, the identification of income is based on accounting records. Accordingly, taxpayers felt obliged to keep their accounting records in compliance with tax laws, and particularly the principles of the tax procedures law, in order to be able to make their annual declaration of income. This is the starting point of our hypothesis.

The Income Tax Law numbered 5421 divided traders into two classes for the purpose of determining commercial gain. First class traders were to use the *balance*

[162] Ibid., p.36-7.
[163] Ibid., p.36-7.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

sheet method (double entry method), and second-class traders were to use the *business account method* (a simple ledger for recording only income and expenditure). This artificial breakdown based only on volume of income should be seen as a defect of the law. It was made compulsory to keep a ledger to establish revenues from capital. For wages the *taxation at source method* (*stoppage)* was envisaged; the principle of monthly taxation was adopted. Employers were made responsible for stopping tax and depositing it to the state; the employer as the *person responsible for tax* was to deduct tax every month with a *withholding tax return* and deposit this tax to the finance ministry. As an exception to this, small tradesman and the agricultural sector were kept exempt from tax. In the draft only small farmers were exempt, but in parliament the exemption was extended to cover the entire agricultural sector.

Another oversight with income tax was the lack of provision in the law for a helpful security measure like the tax calculated according to the minimum charge in income tax[164].

Commercial earnings in income tax were defined as "earnings arising from all kinds of trading and industrial activities" (ITL clause 37). This was a vague description. On this subject, commercial law followed a broader track and categorised trading activities into twelve groups and counted them one by one. (ITL clause 12).

"According to the business account method commercial earnings were the demonstrable difference between revenue obtained in an accounting period and expenditure. The revenue obtained" was expressed as "the received monies and accrued receivables; expenditure" was expressed as "the amounts of liquidations and

[164] Bulutoğlu, *op. cit*., p. 31.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

debts". (ITL clause 39). The important point here is which evaluation criteria are used. If the evaluation criteria of the Turkish Commercial Law are used, a different commercial gain is obtained. In the literature this is referred to as "commercial profit". As envisaged in clause 39 of the income tax law, "if, in the determination of commercial profit, criteria of evaluation pertaining to the Tax Procedures Law are used", a different commercial earning is arrived at, which is referred to as "financial profit". The nature of and the way in which the business ledger should be kept is explained in detail in clauses 193, 194, 195, and 196 of the Tax Procedures Law.

> Commercial gain according to the balance sheet method, it is the demonstrable difference between the values of the private capital of the business concern at the end and the beginning of the business period. Within this period, the owner or owners is/are to:
> 1.Subtract from this difference the values added to the business;
> 2.Add on to this difference the values withdrawn from the business.
> In the process of thus establishing commercial gain, there should be conformity to the criteria of evaluation pertaining to the Tax Procedures Law" (ITL clause 38).

As can be seen, in the calculation of annual commercial profit the income statement (or the profit-loss sheet) principle is totally based on the values in the balance sheet.

While the income statement was at this time in the West considered as being the most important financial statement, the failure to include the income statement in the Tax Procedures Law and sufficing in its application with the profit-loss sheet of the Turkish accounting system (for an example of this see Appended Table 8) was a grave oversight. To calculate profit and derive the tax base it is necessary to clarify what has been written down to income and what to expenditure. Income Tax Law lists the following deductible expenses in the calculation of commercial profit: "Expenses generally made to obtain and perpetuate commercial gain" were counted as "all forms of payments made to workers; losses, damages and compensation to be

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

made in accordance with stipulations of contracts, court decisions or law, provided they are related to the business: travel and accommodation expenses incurred in relation to the business and of importance to increasing the scope of the business; expenditure of vehicles used in the business; all kinds of duties, taxes and levies related to the building and land used for the business; accumulated depreciation". (ITL clause 40)

As for payments that were not acceptable from the perspective of income tax (in ITL clause 41), "money taken out of the business by the owner and people close to the owner; all kinds of payments made by the owner of the business to him/herself or to people close to him/her; interest on capital invested in the business by the owner; compensation arising from offences committed by the owner and all kinds of tax penalties (with the exception of conventional compensation)" were listed.

This method used in income tax was called "the calculation of commercial gain according to the balance sheet method". However, the financial statements prepared in the West according to generally accepted accounting principles (such as the balance sheet, income statement, cost of goods sold statement, cash flow statement, statement of changes in capital) had the same basic format. Tax return statements are prepared using these statements as a basis; tax exempt income is deducted from the amount of profit calculated, and expenditure not eligible for exemption under the tax laws is added on to the profit to arrive at the tax base. In places where this application is used, accounting has continued in its natural development independently of tax laws. In Turkey, on the other hand, even in the 1950s the double entry method was not properly accepted. Even when modern accounting methods were thoroughly understood, the financial statements that were prepared were organised more for presentation to the ministry of finance than for

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

decision making. The fact that the ministry of finance was obliged to conduct all inspections according to the principles of all financial regulations, and principally the tax procedures law, made the "accounting for tax" approach generally acceptable. By making accounting practices compulsory the financial regulations were the fundamental reason for accounting being instituted in Turkey and, in a way, for its development. However, not being able to keep up with developing accounting practices and the tax regulations whose basic purpose was for the calculation of the tax base paradoxically hindered the development of accounting to some extent.

4.4 The Effect of the Tax Procedures Law on Accounting Practices:

The law that shaped Turkish accounting practices and the law that undoubtedly had the most influence on these practices is the tax procedures law. Until 1950, commercial laws shaped accounting practices. When the tax procedures law numbered 5432 was issued, "tax laws took precedence over Turkish Commercial Law as regards the orientation of accounting."[165]

In Western European countries the tax procedures law regulates taxation, tax penalties and tax disputes. There are no regulations on accounting and valuation in this law. The law it is based on, the German Tax Procedures Law, shares this characteristic. However, the Turkish Tax Procedures Law consists of five books. Space is given to valuation, bookkeeping and accounting practices in the second and third books of this law. In fact, the legislator is also aware of this fact; During the process of preparing the Tax Procedures Law, the issuing of two separate laws was

[165] Güvemli, *op. cit*., vol. IV, p.178.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

considered, one of which was the "tax procedures law" and the other the "book keeping law", but in the end the decision was made to make just one law.[166]

The first book of the tax procedures law is called "taxation" and consists of 150 clauses. The first book, just like a true tax procedures book, contains all the principles relating to taxation for taxes, duties and levies. It regulates the subjects of authority in tax practices, tax responsibility, terms, assessment of tax, imposition and assessment procedure, correspondence method, correspondence and assessment commissions, communiqués, payment, time limit and cancellation, rectification of tax errors, tax investigations and compilation of information.

The first section of the second book has the heading "taxpayers' obligations". In this book there are subject headings relating to starting work, changes and leaving a job. The second section of the second book contains rules about *book keeping.* The regulations on book keeping contained in 55 clauses (from clause 171 to clause 226) are more detailed than a standard accounting book. The third section of the second book is reserved for "accounting documents". This section consisting of 30 clauses (from clause 227 to clause 257) deals in great detail with the legal requirements for documentation of records, invoices and pro forma invoices, retail sales documents, expenditure notes, producer invoices, self employment receipts, wage slips, documentation for transportation and hotel businesses, documentation for electronic appliances, and tax cards, together with their filing and presentation on demand for inspection.

The third book is entitled "valuation". This book consisting of 72 clauses (clause 258 to clause 330) constitutes the point of departure for all the practices that shape sixty-seven years of Turkish accounting. This book gives a definition of

[166]Ministry of Finance and Customs. *The Rationale of Turkish Tax Laws, Income Tax Law. v*ol. III. Ankara: 1988: 10.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

valuation and valuation measures, and then explains in detail how to evaluate each and every value including economic enterprises. The rules on the writing up of reserves for accumulated depreciation and sale of assets subject to accumulated depreciation are given in detail (clauses 313 – 330).

Although accounting principles should be governed in accordance with generally accepted accounting principles, the application adhered consistently to TPL in accordance with the clause stating that the rules in the tax procedures law were "valid as regards tax applications" (TPL clause 171), and that the valuation rules were "related to the calculation of tax bases" (TPL clause 258).

The reason for such detailed arrangements on the subjects of book keeping and valuation is given in the preamble to the tax procedures law as follows:

> The most important of the taxpayer's duties is without doubt the obligation of book keeping. As is known, before it was an obligation under tax laws, book keeping was an obligation imposed by commercial law. Due to the fact that the taxes imposed by means of cooperation with the taxpayer have today come into the forefront in tax practice, this obligation has become a circumstance relating to tax law just as much as commercial law, if not more so.... In this respect, the rules concerning book keeping in our commercial law fall far short of embracing the clarity, the scope and the precision looked for in a positive phenomenon like tax. Making changes on this point in the Commercial Law is both a difficult task and one that cannot be appropriate for the constitution and the spirit of this law. [...] Our Procedures Law can constitute the base for not only taxes, but possibly also for the implementation of our economic and social laws as regards price control and control of the workers' situation.[167]

The second and third books shaping accounting practices apparently were an obligation at the beginning of the 1950s. In Turkey the double entry method of accounting was not yet widely used. There were no professional chambers of accounting or professional organisations. The chambers of trade and industry were not sufficiently interested in accounting topics. There were no organisations researching accounting topics. In such an environment, it was only normal to run

[167] Ministry of Finance and Customs. *The Rationale of Turkish Tax Laws, Income Tax Law.* vol. III. Ankara: 1988: 11.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

accounting records, which formed the basis of income and corporate taxes based on the declaration principle, according to a certain discipline by means of a mandatory law. A comprehensive organisation was achieved with the Tax Procedures Law that also contained the regulations in the commercial law. The content of invoices, commercial registers and balance sheets and the principles of keeping operating ledgers were covered in detail in the law. The law stipulated details such as records being kept in Turkish, the record entries being made in ink, and a line being drawn through corrections and the correct entry being written above it. These rules helped organise the running of Turkish accounting practices in a specific order from the 1950s, and was the greatest influence in the proliferation and development of accounting practices. This development increased the demand for accountants; within ten years, four new universities and two high schools opened. (See 3.139) These two high schools that were opened together with the existing ones were in a short time transformed into academies of economics and commercial sciences.

The fourth book set out “Penalty Regulations”. This book consisting of 48 clauses (clause 331 to clause 379) sets out points like tax offences and tax penalties (loss of tax penalty, smuggling penalty, degrees of irregularity and penalties, special irregularities and penalties, offences punishable by liberty binding and penalties, fining, payment and cancellation of penalties).

The fifth book by the name of “Tax Conflicts” (from article 379 to 412) sets out tax suits and the related rules. At a later date, these rules were transferred to the “administrative jurisdiction procedures law” numbered 2577 and taken out of the tax procedures law.

The tax procedures law that has shaped Turkish accounting practices for almost sixty years has been the greatest factor in the proliferation of accounting

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

practices in this period due to the fact that it set out in detail mandatory book keeping and how the books should be kept, and again in detail how essential accounting documentation should be organised, and again in detail how essential accounting documentation should be organised, and due to the fact that it made a simple system like operating ledgers mandatory.

4.5 Effects of the Turkish Commercial Law Numbered 6762 on Accounting Practices:

In 1949 when the tax laws were passed, the Turkish Commercial Law that had been applied since 1926 lagged behind these laws.[168] For this reason, the Commercial Law dated 1926 was reviewed to bring it in line with the new tax laws and to simplify its language and came into effect as the new commercial law as of 1st January 1957. In this law twenty clauses were devoted to operational ledgers (TCL clauses 66 - 86). The sixty-sixth clause of the law was in a sense a summary of accounting aims and it made book keeping mandatory for all tradesmen, whether big or small:

> Every tradesman is obliged to keep all books according to the nature and importance of the business for the purpose of ascertaining the economic and financial position of the commercial enterprise, the debts and receivables relations, and the results obtained in each business year, and the books below in Turkish:
> 1. If the tradesman is a legal person, a journal, a ledger, an inventory book and a minutes book,
> 2. If the tradesman is a natural person, the books in the first article excepting the minutes book, or depending on the nature and importance of the business, only an operating ledger. (TCL clause 66).

[168] Güvemli, *op. cit*., vol. IV, p.186.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The commercial law dated 1926 exempted small tradesmen from book keeping, while the TCL numbered 6762 made it mandatory for them to keep an operational ledger and created a parallel situation to the TPL. The enforcements on book keeping were also increased.

> Those who do not comply with the book keeping obligations at all or in a way that does not comply with the law will be penalised by a heavy fine of one hundred to one thousand lira. In situations where the books are not kept in accordance with the law, those charged with the duty of book keeping are also sentenced to the same penalty. Should judges, notaries, registrars and other officials discover in the course of their official duties that a tradesman's book keeping practices are contrary to the obligations, they are obliged to inform the public prosecutor (TCL clause 67).
>
> In case of not being notarised, a tradesman's books cannot be used as evidence in his or her favour" (TCL clause 69). According to the Turkish Commercial Law, "Those who are obliged to keep books are bound to keep the books and other accounts and papers that are required to be kept for a period of ten years (TCL clause 68).
>
> However, in the Tax Procedures Law the period in question is five years.

In clause 70 of the TCL the content and maintenance of the journal, and in clause 71 the content and maintenance of the ledger, is explained in detail. Clauses 72 and 73 deal with inventory processing and the stock book.

In practice, the accuracy of the general ledger is achieved with monthly trial balances. In neither the commercial law nor the tax procedures law is space allocated to monthly and period end trial balances and the fact that they are not mentioned is interesting.[169]

> According to Turkish Commercial Law, the balance sheet
>
> is an arranged summary of the classification of the assets shown in the inventory and their reciprocal values. In the assets sheet of the financial statements the holdings and the receivables, and losses, if any, are disclosed, and in the liabilities sheet the debts are disclosed. The difference between the aggregate of assets and debts forms the basis for the amount of capital set aside for the operation of the business. Capital can also be recorded in the

[169] Güvemli, *op. cit*., vol. IV, p.190.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

> liabilities sheet, and by this means the aggregates of the assets and liabilities sheets are equalised. (TCL clause 74)

Disclosing losses under assets was a result of the understanding in that era of the balance sheet.

The Turkish Commercial Law invested a lot of importance in the accounting principles of clarity and accuracy. The following rule was inserted: "For the parties concerned to be able to form as true an idea as possible of the economic and financial situation of the business concern and for the financial statements to be complete, clear and coherent in accordance with commercial principles it is necessary to make adjustment into the local currency." (TCL clause 75) These principles also form the basis of the modern application today.

The valuation rules of Turkish Commercial Law are more advanced than those of the Tax Procedures Law. According to the TCL "All assets are recorded at most at the value they are subject to at the balance sheet date" (TCL clause 75) This rule reflects the valuation approach that is still valid today. However, the tax procedures law in essence adopted the "cost principle". These two valuation approaches are the basic reason for the difference that arises between market profit and fiscal profit. Turkish Commercial Law made the following clause applicable for corporations: "real estate, buildings, motorised transportation vehicles, tools and implements and furniture and the like in constant use at the business concern are recorded at most at cost less depreciation in the balance sheet". (TCL clause 460) "Raw materials, finished and semi-finished goods, and other items for sale can be recorded at most at cost value in the balance sheet. Notwithstanding, if the cost value of these goods exceeds the current value at the balance sheet date, they can be recorded at most at current value." (TCL clause 461)

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Turkish Commercial Law also acknowledges the "hidden reserves fund" in corporations. "It is permissible to make provision for hidden reserve funds by showing assets below value at the balance sheet date or by other means, provided it is suitable for and useful to provision for continuous growth of the business or, as far as possible, for consistent profit distribution." (TCL clause 458)

To a certain extent, both the tax procedures law and the Turkish Commercial Law brought matters a step forward by introducing the "operational ledger" system, because previously these small businesses had been taxed in the form of a lump sum payment. This system opened the way for the taxation of small businesses based on real income arrived at through the keeping of operational ledgers. However, it has been argued that by significantly extending the limits of operational ledger keeping each year, this system became widespread, and at the same time, the proliferation of the double entry system was held back to a certain extent.[170]

4.6 General Evaluation of the 1945 - 1960 Period from the Perspective of Accounting Practices:

The 1945-1960 period is very important from the perspective of accounting practices for the following reasons:

a) Through the tax procedures law detailed arrangements were made concerning who keeps books, documents to provide a basis for accounting records, and the valuation principles and books used in accounting.

b) Through the income and corporate tax laws the number of taxpayers filing income tax returns has increased. This increase in the number of

[170] Güvemli, *op. cit*., vol. IV, p.192.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

taxpayers filing income tax returns made it possible for an association of tax inspectors to be formed to conduct tax inspections, and for qualified personnel to participate with high wage policy. Thanks to the determined stance of the Ministry of Finance, accounting practices have become widespread throughout the country and the need for high calibre accountants has increased. To meet this requirement the number of foundations providing business and accounting training has increased rapidly.

c) Until the 1930s, accounting training and practices in our country were based on the French system. In the 1930s with the arrival of German academicians, accountancy education and its writing systems changed over to the German system. This point was clearly seen in the Public Economic Enterprises' Organisation and Inspection Law numbered 3460 passed in 1938. The German system in the 1926 commercial law, the income tax, corporate tax and tax procedures laws prepared in 1949 and the 1957 commercial law shaped Turkish accounting practices. The Turco-American relations developing after 1945, the opening of business and accounting educational programmes at two higher educational foundations with an English teaching medium with the support of the World Bank (the Middle East Technical University and Robert College), the founding of the Business Administration Institute on the Harvard Model in Istanbul, the changing of the programme of the Political Sciences Faculty in Ankara in 1955 taking inspiration from the American universities, consolidated the American approach in accounting education and its application. Moreover, a true orientation to the American system

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

in application began with the advent of American capital in Turkey (such as Ereğli Iron Steel and Turkish Tractors) and the approach of the Turkish Industrial Development Bank.

d) The Turkish accounting system, which is still in application, was shaped by legal arrangements made in this era. Subsequent developments in accounting practices were in the form of amendments to this system.

4.7 Conclusion

The 1945-1960 period is the period that supports the main hypothesis of the thesis (accounting practices in Turkey have been shaped by laws, particularly tax laws) with what is perhaps the strongest evidence. The fact that the double entry system was in use in this period in large industrial establishments is because most of them were under state control. As for the budding private sector, both accounting models and personnel were provided by the state. Accounting was not a requirement for the trade sector, but it was still envisaged as a requirement in tax laws. The two most important factors for the development of accounting, namely an abundance of property and productivity in production, did not exist at that time in Turkey. In an environment where the need to apply accounting was not deemed necessary by the people or institutions that would use it, it was not anticipated that accounting would develop in response to market conditions.

On the other hand, the fact that the commercial and tax laws overlapped was an indication that even though state sanctions were a driving force, the idea that accounting was a necessary activity was not completely taken on board. The state gave priority to tax, then law, and last of all to productivity.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

CHAPTER 5

DEVELOPMENTS IN ACCOUNTING PRACTICES DURING 1960 – 1980

5.1 The 1960 Military Coup and Resulting Developments:

As also mentioned in the third chapter of the thesis, the Democratic Party was unable to resolve the economic, political and legal problems experienced in Turkey towards the end of the 1950s, and the army seized power on 27th May 1960 to halt the slide towards a one-party state. The President, the Prime Minister, members of the government and Democratic Party representatives in parliament were placed under arrest and sent to Yassıada to await trial. *Milli Birlik Komitesi*, The National Unity Committee comprising putschist military officers drew up a temporary constitution and invalidated the 1924 constitution. A founder parliament was also formed to draw up a new constitution.

In the 1950 – 1960 period, unplanned development and the unsystematic personnel regime led to a number of problems. In 1961, the State Planning Organization was established to develop the economy with five year plans, and to show the way forward for the private sector and to set binding goals for the public sector. In the same year, the State Manpower Department was established to bring order to the state personnel system and to institute a more modern personnel regime in place of the scale system. The National Productivity Centre was inaugurated to increase productivity of the economy and conduct studies on this subject, to produce publications and to organize seminars to provide training for the foundations concerned. The Turkish Standards Institute was reorganized to ensure quality control in products and to set standards of quality.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Within a year, the Founder Parliament had prepared a democratic and modern constitution. This constitution gave importance to social state principles, reduced the parliamentary powers inherent in the 1924 constitution, and made the transition to a dual parliamentary system. In addition, the Constitutional Court of Law was founded to ensure the conformity of laws to the constitution. The electoral system was changed to move over from a majority system to a proportional representation system.

In the process of changing the entire state regime, the fiscal system was also examined. Important changes were made in the tax procedure law and income tax law, which have a close bearing on accounting practices.

5.2 1960 Changes Made in the Tax Laws Following the Military Coup:

The income tax law numbered 5421 was passed in 1949. As previously mentioned, this law had the nature of a reform. However, while it was being discussed in the Grand National Assembly, serious objections were raised on two grounds. The first of these was the taxation of the agricultural sector, and the second was the inclusion of tradesmen into the taxation system. In the 1949 draft bill, the taxation of agricultural profit was included under income tax; as for the taxation of tradesmen a different draft was prepared. While the drafts were being discussed in parliament, the taxation of income derived from agriculture was taken out of the draft, and the draft bill on taxation of tradesmen was rejected and taxation related to tradesmen was included symbolically under income tax. To meet rising public expenditure and to correct these deficiencies in the tax law, the National Unity Committee prepared a draft of the income tax law to replace the law numbered 5421.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

In this newly written draft the total tax burden was increased by a certain amount and this increased tax burden could be distributed in a more balanced way between different income groups. Agricultural income and small tradesmen were taken into the scope of the tax. This draft was passed as the Income Tax Law numbered 193 on 31st December 1960 and enacted as of 1st January 1961. This law, which has had a number of amendments, is still in force.

Similarly, the law numbered 192 with an envisaged application period of ten years introduced important changes to the corporate tax law numbered 5422. Moreover, the tax base on building and land tax was updated to tenfold the existing rate to counter the total erosion of its tax base due to price increases.

In addition, security measures were tightened to prevent tax evasion, and the listing of property for taxation was accepted. Tax security measures are known to consist of the average percentage rate of profit base, (on agricultural incomes at least the agricultural income base) the expenditure base, the listing of property for taxation and tax announcements. The first two of these were included in the income tax law numbered 5421. The law numbered 193 broadened its scope and its application was mandatory for all taxpayers on total sales in excess of fifty percent of retail sales. As regards expenditure, it obliged taxpayers making an annual tax return to declare their expenditure on a separate sheet of the tax return form. As regards the property declaration, real persons obliged to make an annual tax return were also made responsible for making an itemized declaration of their assets on the annual tax return.

These amendments to the tax laws made at the time of the National Unity Committee met with violent response. On account of this reaction, following the 1961 elections, a *Tax Reform Commission* was set up in Istanbul by the Ministry of

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Finance to re-scrutinize the entire tax system and make recommendations to the government in the form of reports on changes to support economic development. The commission conducted a comprehensive study. As a result of this study, proposals on *capital allowance, accelerated depreciation,* and *reduction of the scope of income tax levied on agriculture* were accepted and validated.

In 1963, the First Five Year Development Plan came into force. To provide the necessary resources for this plan indirect taxation and compulsory expenditure were increased. The taxation and customs duties on certain consumer commodities, including fuel products, were increased. In addition, tax was levied on the external travel duty, on the stamp duty liable on imports, and on motorized land vehicles.[171]

5.3 Amendments Made to the Tax Procedures Law Following the 1960 Military Coup:

From the perspective of accounting practices the most important change was the promulgation of the law numbered 213, which is still in force. Passed in 1949 and in force as of 1st January 1950, the tax procedures law numbered 3432, which shaped Turkish accounting practices for a long period of time, was completely revised after being in force for eleven years to eradicate the loopholes that had been observed and to make it compatible with the new commercial law coming into force in 1957, and on 4th January 1961 it was passed as the Tax Procedures Law numbered 213 and came into force with effect from 1st January 1961. This law, which is still in force, has been the law with the greatest impact on accounting practices from the day it came into force till the present.

[171] Güvemli, *op. cit.*, vol. IV, p 13- 14.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

On the one hand, the inclusion of tax security measures such as the average percentage rate of profit base, the expenditure base, declaration of assets and tax announcements in the Tax Procedures Law numbered 213, the strengthening of the tax inspection organization of the Ministry of Finance (the strengthening of the establishment incorporated auditors and the increase in the number of revenue inspectors), the broadening of the scope of tax inspections, the inclusion of tradesman's and agricultural income in the scope of tax, and the raising of tax penalties and unfaltering application fuelled opposition to the tax laws. On the other hand, it ensured that the tax procedures law was accepted as an undisputable rule in the application of accounting and related decisions. The system introduced by the tax procedure law has become a form of accounting standards for Turkey, and has been accepted as a basic resource in accounting training by a number of establishments of higher education.

5.4 Studies Relating to State Economic Enterprise:

A further development with a close bearing on Turkish accounting practices is the organization of state economic enterprise. As explained in the third chapter, as state economic bodies could not be carried over into the private sector in the 1950 – 1960 period, new public economic enterprises other than Sümerbank and Etibank were established such as *Türkiye Petrolleri Anonim Ortaklığı*, the Turkish Petroleum Corporation (TPAO), *Et ve Balık Kurumu*, the Meat and Fish Institution (EBO), *Türkiye Demir ve Çelik İşletmeleri*, the Turkish Iron and Steel Enterprise (TDÇİ), *Türkiye Çimento Sanayi T.A.Ş.*, the Turkish Cement Industry (ÇİMENTAŞ), *Selüloz ve Kağıt Sanayii*, the Cellulose and Paper Industry (SEKA), and *Turkiye Cumhuriyeti*

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Turizm Bankası, the Turkish Republic Tourism Bank; *Türkiye Cumhuriyeti Devlet Demiryolları*, the Turkish Republic State Railways (TCDD), *Posta, Telefon ve Telgraf İdaresi*, the Postal, Telephone and Telegraph Administration (PTT), *Denizcilik Bankası*, the Maritime Bank, and *Devlet Malzeme Ofisi*, the State Supply Office (DMO) were also transformed into state economic enterprises[172].

The increase in the number of state economic enterprises gave rise to the production of separate accounting reports for each one of them. As in the 1930–1950 period all industrial establishments came under Sümerbank, and because the law numbered 3460 introduced in 1938 also furnished these establishments with standards, no such reporting problem was experienced in that period.

Following the 1960 military coup, the state economic enterprises were also interfered with by means of clause 17 of the *"Arbitration of the Debts of the Treasury and a Section of the State Economic Bodies"* law numbered 154 introduced in 1960 that entailed legal decisions concerning,the reform of *iktisadi devlet teşebbüslerinin (İDT)*, state economic enterprises (SEEs). According to this clause "a group composed of local and foreign experts" was to be established "within a maximum of 60 days from the date on which the law came into force charged with the examination of the judicial, administrative and fiscal structures of State Economic Enterprises and similar establishments, and the designation of the functions entrusted to them in the home economy and the manner in which these functions will be executed, and the determination of the reforms that need to be made within their structures, and the commission report" was to be "delivered to the government within three months of commencement of the project. Within one month of the delivery of the report to the government, the Ministry of Finance and related

[172] Güvemli, *op. cit.*, vol. IV, p.459

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Ministries" were to be obliged to "take the necessary measures and in case of necessity to entrust the draft of the law to the legislative organ".

In accordance with this law the government set up teams consisting of Turkish, European and American experts and entrusted them with the "Investigation of the Workings of SEEs Project". The teams examined twelve SEEs in different sectors and submitted a four-volume report containing their recommendations in Turkish and in English to the government on 8th May 1961[173]. The first volume contained the findings of the research and the recommendations that could be implemented in all SEEs. This report also known as the preliminary recommendations report was later published separately as a book[174].

The conclusions of this report dealing with various problems relating to SEEs concerning the accounting system applied in SEEs are as follows:[175]

a) The existence of state enterprises processing their accounts under little more than rudimentary conditions,

b) The existence of enterprises applying comparatively advanced accounting systems but that are not able to serve their administrative objectives efficiently due to the inadequacy of the subsidiary accounts employed,

---

[173] These reports are as follows:
Ministry of Finance. *A Report on the Activities of State Economic Enterprise in Turkey.* Ankara: 1961.
Ministry of Finance. *Special Reports Pertaining to Public Economic Enterprise Vols. 1, 2 and 3* ic, Ankara: 1961.
Ministry of Finance. *A Study on the Operation of State Economic Enterprise in Turkey-Reproducing A Policy Report dated May 8, 1961.*
Ministry of Finance. *A Commentary Report dated July 6, 1961- Prepared for the Goverment of Turkey. 1961*

[174] Ministry of Finance. *A Consolidated Report on the Public Economic Enterprises.* Ankara: 1962.

[175] Ministry of Finance. *A Commentary Report dated July 6, 1961- Prepared for the Goverment of Turkey.* Ankara: 1962: 118.
Ministry of Finance. *A Consolidated Report on the Public Economic Enterprises.* Ankara: 1962: 54.
Koç Yalkın, Y. *Uniform Accounting System and Studies in Turkey.* Ankara: A.Ü. Printing House, 1975: 46

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

c) Instances where, although the essential framework of the accounting system is sound, the financial documents run into the system have not been prepared in accordance with accounting principles

In the report of preliminary recommendations based on these findings, "it is proposed that in all state enterprises the application of modern and correct accounting principles be facilitated and the accounting systems to be applied in SEEs be organized in a manner conducive to the incorporation of management decisions in addition to traditional functions"[176]. In addition, the determination of consistent accounting principles that could be applied as an example in the accounting systems of various state enterprises was proposed in the report. Furthermore, it was expressed that to counter the absence of professional organizations to develop accounting theory, it would be appropriate for the state to develop accounting principles. It was proposed that the organization to be established to this intent should be entrusted with the development of these principles and control over their practices and the approval of accounting systems belonging to independent enterprises[177]. The said report should be seen as evidence that accounting in the Turkey of 1960 had not yet been shaped and directed by market forces.

Due to the fact that the preliminary recommendations report was prepared in such a short time, on 26th June 1961 a "Revision Committee" composed of three foreign and two Turkish experts was formed to re-examine the proposals in the report[178]. The committee's work was done in a short time, and their report named "*Mütalaalar*, Commentary" on the Preliminary Report and Proposals on the New Regulations" was submitted to the Ministry of Finance on 6th July 1961. The most

[176] Koç Yalkın, *op. cit*., p. 46-7.
[177] Ministry of Finance. *A Consolidated Report on the Public Economic Enterprises.* Ankara: 1962: 55-8.
[178] Koç Yalkın, *op. cit*., p. 47.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

important recommendation of the committee was to set up a "Reorganization Committee" relating to the State Economic Enterprises that came under the Prime Ministry. One of the functions of this committee was to define accounting principles that the SEEs accounting systems could be grounded on. The drafts prepared by the revision committee formed the core of three laws that would subsequently be passed (the law numbered 440 on state economic enterprises and incorporated businesses and affiliates that came into force in 1964, the law numbered 441 on the State Investment Bank and the law numbered 468 on the organization of the Turkish Grand National Assembly's audit of the state economic enterprises). The revision committee's proposal regarding the founding of the "Reorganization Committee" under *Devlet Planlama Teşkilatı*, the State Planning Organization was also made concrete with the enactment of the law numbered 440 in March 1964.[179]

The Ministry of Finance asked the Institute of Business Administration of the Istanbul University Economics Faculty for a report on "Accounting Principles" in accordance with the recommendations report of the revision committee. The report named the *"*Kamu İktisadi teşebbüsleri Temel Muhasebe Teklif ve Tavsiyeleri, Public State Enterprise Basic Accounting Proposals and Recommendations*"*[180] prepared by the institute was presented to the Ministry of Finance on 20th April 1962. This report contained sample income statements, cost of goods sold statement, balance sheet and capital accounts statements; together with the application of the proposed system and envisaged amendments to be made to the related laws it also contained a "glossary of terms".[181] The institute advised the setting up of a research group to establish a uniform accounting plan that would be compulsory for all public

[179] Koç Yalkın, *op. cit*., p. 47.
[180] Ministry of Finance. *Public State Enterprise Basic Accounting Proposals and Recommendations,* Ankara: 1962.
[181] Ibid., p. 6-7.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

economic enterprises and discretionary for mixed and private enterprises. It was further recommended that a single plan of this kind be based largely on the Anglo-American practices.[182] The Ministry of Finance also engaged a consulting company "Mead Carney International Company" to increase the productivity and efficiency of SEEs. The said consulting firm drew up "budget responsibility reports and the groundwork for special control reports, forms and plans and job descriptions pertaining to accounting organizations[183]; in addition, they also conducted studies on uniform accounting principles and the manner of implementing them, modern budget and financial systems.[184]

5.5 Studies Relating to Accounting from the Period of the State Economic Enterprise Reorganization Committee:

The "Reorganization Commission", which has an important place in accounting practices, was founded on the understanding that its work would be completed within two years under the temporary first clause of the "State Economic Enterprises and Incorporated Businesses and Affiliates Law" numbered 440 that came into force on 21st March 1964. The commission consisted of six permanent members. The ministries of finance, industry and trade, the state planning organization, the high auditing commission and the state personnel department were each represented by one member of the commission. The representative for the Ministry of Finance was president of the commission. As the commission was unable

[182] Koç Yalkın, *op. cit.*, p. 48.
[183] Ibid., p.49
[184] The prepared reports were translated into Turkish for printing:
International Development Enterprise, *State Economic Enterprise Project Report,* Trans. H. İnanlı. Ankara: Kardeş Printing House, 1964.
Machine Chemical Industry Foundation. *Financial Affairs and Accounting Report.* Trans. Y. Koç. Ankara: 1963.
Nitrogen Industry. *Financing and Accounting Repor.* Trans. H. İnanlı. Ankara: 1963.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

to finish its work in the two-year period, the period of duty was extended for a further two years under the law numbered 757 on 19th April 1966.[185] The commission conducted studies on organization and regulations, fiscal matters and accounting, business analysis, marketing and personnel.[186] The works to be conducted by the sub group established to deal with fiscal matters and accounting as allocated by the commission were defined as follows:

- To examine the financial constitution of the enterprises and to determine the measures that need to be taken on this subject,
- To identify elements pertaining to revaluation of the enterprises' assets and liabilities,
- To identify elements of accounting practices for amendment and reform[187]

The fiscal affairs and accounting group ascertained the state of accounting practices in the state economic enterprises and stated serious deficiencies in the accounting system as follows.[188]

1. An absence of or inadequate application of basic accounting concepts and generally accepted accounting principles,
2. A reporting system that fell far short of being an adequate and integrated system to meet its needs and express its functions,
3. The fact that the current bookkeeping system is slow and far from incisive due to the total lack of a relationship between the chart of accounts (code) and accounting practices, and the existing reporting

[185] Akın N., Erdem K., and Dinçer, G. *State Economic Enterprise Regulations, Statements and Justification.* Ankara: Mars Printing House, 1966: 162-3.
[186] State Economic Enterprises Reorganisation Commission. *General Report.* Ankara: Güneş Printing House, 1968: 9.
[187] Ibid., p. 10-1.
[188] Ibid., p. 83.
Koç Yalkın, *op. cit.*, p.50-1.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

system prevents the information and reports prepared by accounting from being an effective management tool,

4. Shortfalls or inadequate development in the provision of certain important services in the fields of decision making and audit in financing and accounting,
5. Very narrow definition of the fields of activity from the fiscal matters, accounting and control directorates and the exclusion of a number of important functions from the fields of activity of these organizations,
6. The existence of differing accounting principles and practices and methods and practices in the reporting systems among the various enterprises,
7. Enterprises being overburdened with work due to inadequate coordination between related ministries and agencies regarding reports and information required of fiscal affairs and accounting organizations,
8. The non-conformity of the constitution of a number of enterprises to modern business management principles constitutes an obstacle to the establishment in terms of negative effects on the productivity of accounting activities and an adequate accounting and reporting system.

Having established these inadequacies, the commission "took into consideration the leading role of the public sector, and took note of previous proposals and points that would facilitate the adoption and implementation of the

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

system being developed by the private sector. The commission listed matters to be formally discussed under ten headings: [189]

- General accounting concepts and generally accepted accounting principles,
- An integrated reporting system,
- A uniform chart of accounting,
- Cost principles, procedures and practices (full, standard and direct costs),
- Budget system,
- Financial analysis,
- Changes in price levels,
- Organization of financial affairs, accounting and control departments,
- Terminology,
- Suggestions and recommendations on changes to be made in the regulations.

As we have seen, the accounting system whose application was to be made compulsory for public economic enterprises was considered for the first time in every dimension. The handbook on a uniform accounting system to be prepared as a result of the study to be conducted under these headings was intended to cover basic accounting concepts and generally accepted accounting principles and a chart of accounts.[190] "In the studies, Turkish, American, French, German, British and in part also Italian literature was used, and the regulations and practices relating to

[189] State Economic Enterprises Reorganisation Commission. *General Report.* Ankara: Güneş Printing House, 1968: 83-4.
[190] State Planning Organsation. *Towards Reform and Uniformity in Accounting Practices – Introduction.* Ankara: 1973: 42.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

accounting in these countries were examined."[191] "Among the Turkish sources investigated were the regulations manuals of the state economic enterprises, the working guide and regulations manuals of the high audit establishment, commercial law, tax laws, and various books published on this subject."[192]

The "financial accounting group" of the commission presented six reports to the Ministry of Finance. These reports were as follows:

1. Towards Reform and Uniformity in Accounting Principles – Introduction,
2. Basic Accounting Principles and Generally Accepted Accounting Principles, (This report was published in three books)
3. Reporting System,
4. Uniform Chart of Accounts and Statements,
5. Organization of the Financial Affairs, Accounting and Control Departments,
6. *Terms and Explanations.*

"The proposals and recommendations concerning changes to the existing regulations deemed necessary in order to facilitate application of the proposed uniform chart of accounts were contained in the Organization Committee general report. The proposed uniform chart of accounts was largely based on accounting theory and practices in the United States of America."[193] The basic points of the proposed system and its main outline were based on the AICPA (American Institute of Certified Public Accountants)'s seventh accounting research study and the work

[191] Koç Yalkın, *op. cit.*, p. 52.
[192] State Planning Organsation. *Towards Reform and Uniformity in Accounting Practices – Introduction.* Ankara: 1973: 1 and 44.
[193] Koç Yalkın, *op. cit.*, p. 53.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

by Paul Grady entitled "Inventory of Generally Accepted Accounting principles for Business Enterprises". However, to a certain extent, French and Turkish practices were also incorporated into the system." [194]

The essence of the proposed accounting system was reports that were accurate and could be used for comparative purposes. To achieve such reports, work was done on developing the chart of accounts. The system was based on generally accepted accounting principles and basic concepts[195], and a uniform reporting system and chart of accounts was also organized in keeping with these principles.[196] Application of this system proposed by the commission was mandatory for economic state enterprises and discretionary for the private sector. The proposed uniform chart of accounts did not include banks, insurance, agricultural establishments, non-profit public organizations and similar establishments in its scope.[197] The conclusion drawn from these proposals was the acknowledgement that accounting was a necessity for the productivity of profit-making state enterprises. On the other hand, in addition to not making it mandatory for private enterprise with similar goals, provided that the private sector paid its taxes, its productivity goal was not considered a matter of priority for the state.

The generally accepted accounting principles that govern accounting practices were also divided into four sections.[198] These principles are as follows:

---

[194] Ibid., p. 53

[195] Towards State Planning Organsation. *Towards Reform and Uniformity in Accounting Practices – Introduction.* Ankara: 1973: 1-37.
There are 10 of these basic principles: 1.The Social Responsibility Concept, 2. The Individual Concept, 3. The Business Continuity Concept, 4. The Limping Standard Concept, 5. The Periodic Concept, 6. The Cost Basis Concept, 7. The Objective Document Concept, 8. The Consistent and Comparable Reporting System Concept, 9. The Full Statements Concept and 10. The Conservatism Concept.

[196] Koç Yalkın, *op. cit.*, p.54.

[197] State Planning Organisation. *Basic Concepts of Accounting and Generally Accepted Accounting Principles.* 3rd ed. Ankara, 1973: 37.

[198] State Planning Organisation. *Basic Concepts of Accounting and Generally Accepted Accounting Principles.* 3rd ed. Ankara, 1973: 89-90.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

a. Income and Expenditure (profit and loss) principles,

b. Assets principles,

c. Liabilities principles,

d. Equity principles.

On completion of its work, the Organization Committee prepared a proposal for four different reporting groups.[199] According to this proposal, the groups were as follows :

1. Financial Statements,
2. Responsibility and Control Reports,
3. Operational Control Organized According to Function reports,
4. Financial ratios.

The financial statements, the aim of which was to give an unbiased and true account of the financial situation and operational results of the business concerned, formed the major core of the proposed reporting system. The balance sheet was organized to disclose the assets from the most liquid to the least liquid, and the resources were organized in order of the shortest term of repayment till the longest. Also, in the income statements, operating revenue and non-operating revenue and expenditure were separated, and sample statements were developed to provide the opportunity for consolidation and comparison.[200] Balance sheets and income statements envisaged in the uniform chart of accounts system are given in Appendix D.

[199] State Planning Organisation. *Reporting System*. Ankara, 1975: 9-11.
[200] State Planning Organisation. *Reporting System*. Ankara, 1975: 12-9.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Seven reports were developed pertaining to responsibility control reports, and expenditure that could be controlled by the related management tier was disclosed in detail while expenditure that could not be controlled was disclosed as a total amount. Space was allocated for the comparison of running costs with standard expenditure and budget figures, and the percentage of realization.[201]

Four samples were given of operational reports organized according to function; the management control rate of thirty-five to be used by management was also included in the report.[202]

The uniform chart of accounts constituted an important part of these studies. Starting with the view that the chart of accounts was a tool for instituting the application of accounting theory[203], in the proposed chart of accounts the sequence and scope of statements, the accounting principles and the reporting system defined in the system were determined in accordance with basic accounting principles. It was noted that the uniform chart of accounts could be applied by all industrial and commercial establishments with the exception of insurance and banking. The proposed accounting system provided a general framework that could be applied by different enterprises. The chart of accounts included the following classes of accounts in its scope.[204]

000	-	099	Floating
100	-	199	Current Assets
200	-	299	Noncurrent Assets
300	-	399	Short Term Liabilities

[201] Ibid., p. 23-5.
[202] Ibid., p. 25-7.
[203] Koç Yalkın, *op. cit.*, p. 72.
[204] State Planning Organisation. *Uniform Chart of Accounts and Financial Statements.* Ankara, 1974: 7-14.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

400	-	499	Long-term Liabilities and Equity
500	-	599	Revenues Accounts
600	-	699	Costs, Expenses and Loses
700	-	799	Functional Costs and Expense Accounts
800	-	899	Profit and Loss, Summary and Accounts of Distribution
900	-	999	Floating

The classification of accounts (the separation of accounts numbered from 100 to 499 into the balance sheet and accounts numbered from 500 to 699 into the income statement) in the main classes of accounts shows conformity with the basic accounting principles.[205] A detailed account of this chart of accounts is also shown in Appendix D.

The State Planning Organization arranged "Transition to the Application of the Uniform Chart of Accounts Seminars" taking place on 10-14 November 1969. These seminars provided interested parties with information about the system and in addition the results of the pilot application at the Nitrogen Industry were elucidated. In April 1971, similar studies on the accounting system at *Türkiye Şeker Fabrikaları A. Ş.*, the Turkish Sugar Factories Corporation also commenced. As a result of these studies, the decision was made to adopt the uniform chart of accounts with the exception of the practices relating to cost accounting at the establishment as of the year 1972 starting with 27 institutions, with the decision dated 7th July 1971 and numbered 7/2757.[206] Similarly, the cost accounting practices came into effect as of the year 1977.[207]

[205] Koç Yalkın, *op. cit.*, p. 73.
[206] Koç Yalkın, *op. cit.*, pp. 81-2.
[207] Akdoğan, N. *Financial Statements and Financial Analysis.* Ankara, 2007: 23

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Contrary to the tax procedures law where their inclusion was not compulsory, the income statement, which was part of the financial statements prepared in parallel to the reorganization of the state economic enterprises, was included in the Turkish application and replaced the profit-loss sheet.

The studies and reports prepared for the public economic enterprises represent a turning point in the history of Turkish accounting practices. The accounting system moved away from the accounting practices in France and Germany and was transformed into the American system employing the most up-to-date accounting practices. Furthermore, these studies would constitute a resource for the applications made from the 1980s.

5.6 Uniform Accounting Studies in Banking and Insurance Firms:

In the Republican Period, one of the institutions shaping the accounting practices was the banking institution. "It should first of all be pointed out that in almost all legal formulations related to banking there are legal decisions concerning the layout of the balance sheets and profit-loss sheets and about there being only one kind."[208]

"At the beginning of the second half of the twentieth century, first the Turkish Industrial Development Bank and the State Investment Bank, and later the Industrial Investment and Credit Bank founded in 1964, started providing midterm investment and business credit services. Subsequently, commercial banks were added to these and financial analysis departments were set up in banks. These events led to the

[208] Taşçıoğlu A. *Cumhuriyet Dönemi Bankalar Kanunları ve İlgili Yasal Düzenlemeler.* Istanbul: T. Bankalar Birliği Publication, 1998.
Sadıklar. *Banks in the Turkish Financial System, Publication of the Turkish Banking Association*. Istanbul, 1981.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

creation of "financial investigation", "economic investigation" and "technical investigation" in development and investment banks. These developments resulted in the organization and evaluation of investment projects and the development of financial analysis after 1960. [209]

In one respect, the development of financial analysis provided more reliable information in the accounts affairs of the business; on the other hand, it also ensured widespread learning of financial analysis techniques[210]. In every credit decision made by the banks their first recourse is to using the uniform balance and income sheets known as the "asset and liability statement"[211].

The "asset and liability statement", which was an important part of the uniform financial sheets of industrial, commercial and service establishments, contained three years of data on foundations seeking credit.[212] An example of an asset and liability statement is provided in Appendix 4.3. It was also required that explanatory notes consisting of thirteen clauses be appended to this asset and liability statement. This system was in use until the uniform accounting system came into force in 1993.

The most important legal arrangement in the Republican era pertaining to insurance companies was the "Law on the Auditing of Insurance Companies" numbered 7397, which was passed on 21st December 1959 and came into force on 30th December 1959. Foundations relating to insurance (such as the Association of Insurance Companies) were established under this law. The "Insurance Auditing Foundation" was established in 1963 on the basis of this law.[213] The 39th clause of

[209] Güvemli, *op. cit.*, vol. IV, p. 512.
[210] Ibid, p. 513.
[211] Turkish Banking Association. *Asset and Liability Statement of Creditors Seeking Bank Credits and Analysis Principles seminars,* 3rd ed., Ankara: 1963.
[212] Güvemli, *op. cit.*, vol. IV, p. 513.
[213] Güvemli, *op. cit.*, vol. IV, p. 535-6.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

this same law made the publishing and announcement of "specimen balance sheets and profit and loss accounts" compulsory. This clause was "an important undertaking as regards the organization of specimen balance sheets and profit and loss statements even if a general chart of accounts was in place in insurance companies."[214] Insurance companies were to move over into the uniform chart of accounts in 1995.

5.7 Legal Changes Affecting Accounting Practices Following the 1961 Elections:

The income tax law numbered 193 and the tax procedures law numbered 213 that came into effect in 1961 were drawn up immediately following the military coup and brought about radical[215] changes. After the elections, as previously mentioned, a "Tax Reform Commission" was established to go over these changes made in the fiscal system. The commission completed its studies in a short space of time and submitted its views and proposals to the Ministry of Finance in a report named the "General Tax Reform Report". Among the proposals of the commission also appeared "revaluation", "the declining balance method of accumulated depreciation", "investment allowance" and "reconciliation". These proposals were included into the Turkish taxation system under the law numbered 202 promulgated in 1963. The "tax elucidation system" was inserted as a security measure into the tax procedures law on 26th April 1964 by means of the law numbered 484.

It is a known fact that according to one of the basic hypotheses of accounting the purchasing power of money is not subject to change, or in other words, the

[214] Ibid., p. 516-7.
[215] Such as the taxation of agricultural profits, the inclusion of tradesmen in the scope of taxation, the listing of assets and the closure of loopholes in the laws.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

hypothesis that inflation and deflation do not exist in an economy. However, in reality, inflation is experienced at least for a time in almost every country. In countries where prices rise fast it is permissible to adjust balance sheet values according to price increases from time to time, or in other words, revaluation has been permitted.[216] The price stability in Turkey in the 1923-38 period suffered due to the Second World War, and while in 1938 prices in general were around 100, in 1943 they had risen to 590.1[217] showing a fivefold increase over a period of four years. With the end of the Second World War, by 1950 prices had fallen to the general level of 452.1. As a result of swift development efforts and the protection of economic stability after 1950, in 1960 the level rose 1188.1 and increased 1.5 fold in ten years.[218]

To counter the adverse effects of inflation experienced in the periods 1940 – 1943 and 1954 -1959 a debate on revaluation commenced in consideration of the applications in Germany and France. Although the tax reform commission acknowledged that revaluation was necessary, it did not wish to accept revaluation by increasing historical costs, and thereby accumulated depreciation allowances, and by reducing the tax base.[219] This view was manifested in the temporary 11th clause appended to the tax procedures law on 13th February 1963 by the law numbered 205. "Under the law the kind of revaluation that increased the balance sheet values according to price increases but did not have an effect on accumulated depreciation allowances was accepted."[220]

---

[216] For further information see Uman, N. *Yeni Değerleme: Teori ve Uygulama*. Istanbul: Çağlayan Printing, 1983: 39-45.
[217] Uman, N. *Fiyat Hareketlerinin İşletmelerÜzerine Etkisi ve Yeniden Değerleme.* Ankara: Sevinç Printing House, 1968: 315.
[218] Ibid., p. 315
[219] Ministry of Finance. *General Tax Reform Report.* Ankara, 1961: 58-63.
[220] Bulutoğlu, *op. cit.*, p. 354.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

According to the clause in question, the ministry of finance was empowered to decide when to apply revaluation and to issue the communiqué showing the coefficients on which revaluation would be based. Since the ministry of finance did not issue this communiqué till 1983, revaluation could not be applied in the 1960s. Some of the reasons behind the non-adoption of the application were the fact that economic stability had been secured, the fact that the private sector was not strong enough, and the tax loss produced by revaluation.[221]

Until 1963 in Turkey, only the "straight-line depreciation method" was used. In this method the ministry of finance determined the lives of depreciable property. "When the ministry of finance was conducting this fixing work, it sought the opinion of the related ministries, the chambers of trade and industry and the stock markets association."[222] Using the power granted it by clause 315 of the tax procedures law the ministry of finance drew up new "depreciation rates table" in 1961. In 1963, clause 315 was added to the tax procedures law concurrent with law 205. This was the way in which the declining balance method of depreciation was introduced into Turkish accounting practices. According to the system introduced, the depreciation rate, which was not to exceed 25%, was twice the straight-line depreciation rate. (Subsequently, with the promulgation of the law numbered 2791 on 21st January 1983, it went up to 50%). Every year, the depreciation rate is applied on the value that is the difference between the previous value and the current value. The depreciation period of this method is the same as that of the straight-line depreciation method. The residual balance of the last year of this period writes off that year. (TPL concurrent clause 315).

---

[221] Uman, N. *Fiyat Hareketlerinin İşletmelerÜzerine Etkisi ve Yeniden Değerleme.* Ankara: Sevinç Printing House, 1968: 325-6.
[222] Bulutoğlu, *op. cit.*, p. 358.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The choice of depreciation method was left at the taxpayers' liberty. However, "after departing from depreciation on an economic value according to the straight-line depreciation method, there can be no return to this method. However, after departing from depreciation according to the declining balance method, it is possible to return to the straight-line depreciation method. In such case, the value which has not yet been written off can be written off in equal amounts provided the balance is divided into the depreciation period." (TPL concurrent clause 320).

The application of the First Five Year Development Plan covering the 1963 – 1967 period prepared by the State Planning Organization commenced in 1963. Arrangements concerning investment allowance were added into the income tax law with the law numbered 202 and dated 12th February 1963 with the aim of providing investment incentive and accelerating capital accumulation in the economy and economic recovery.[223] Investment allowance was suggested by the tax reform commission.[224]

Taxpayers can benefit from "tax reductions" on the tax base on income from trade and agriculture provided the investment was made in accordance with the conditions stipulated in the law. This reduction is also valid for equity companies. In order to benefit from investment allowance:

- Trade and agricultural income must be determined according to the balance sheet method. (Income Tax Law clause 2/1)
- Furthermore, the investment made must conform to the development plans prepared by the State Planning Organization. (ITL appended clause 2/2)

[223] Bulutoğlu, *op. cit.*, p. 182.
[224] *General Tax Reform report*, *op. cit.*, p. 32.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- The investments must be directed to the expansion of production, increasing productivity, improving exports, improving the quality of products and manufactured goods, to ensure energy conservation, to raise the cultural level, to develop scientific and technical research, to foster employment security or attractiveness to foreign tourists. (ITL appended clause 2/3)

- The investment amount must be at least 250 000 lira. (ITL appended clause 2/4)[225]

- The investments must be financed from the enterprise's capital stock.[226] Investments made with borrowings from external sources cannot benefit from investment allowance[227] or only the portion of the investment provided from stockholders' equity can benefit.

- The asset values reinvestment must be new values. What is meant by the asset values must be new is that they have not been used in any way whatsoever either in or out the country. (ITL appended clause 3)[228]

- The proportion of investment allowance is ... 30% of the invested amount. - This proportion is 40% for investments related to agricultural investment and regional development, and on investments in priority development areas the proportion is 50%.[229]

- Taxpayers accountants follow up the desired amounts to be obtained from investment allowance on a yearly basis, and the amount of income allowan*ce*

[225] The minimum investment amount has been raised from time to time due to high inflation. In 1980, it was increased to 40 million, in 1999 to 50 billion and in 2001 to 120 billion.
[226] The description of shareholders' capital was provided in clause 192 of the Tax Procedures Law. It is the difference between total assets and debts. Reserves and profit are disclosed separately but count as components of stockholders' capital.
[227] This condition was removed in the amendment to Income Tax Law in 1980.
[228] The condition that it must not have been used abroad was removed in 1987 with the law numbered 3380.
[229] These rates have been changed frequently. Today the general rate is 40%. It is applied as 100% in organised industrial regions and priority development areas.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

benefited from is to be disclosed in the annual tax return. (ITL appended clause 6)

Bookkeeping according to the balance sheet methods is compulsory in order to qualify for investment allowance, which has a wide field of application. This obligation has made accounting practices commonplace. Furthermore, the accounting practices must be of a certain standard to enable proper calculation of the stockholders' capital in the balance sheet, as required in the application procedure for investment income, and regular follow up of investment allowance obtained.

Intensified tax auditing, the full implementation of tax security measures (average profit margin, average agricultural income, minimum agricultural income, expenditure principle, assets declaration and tax statement)[230], the inclusion of agricultural income in the scope of taxation and closure of the loopholes in the tax laws obliged businesses to comply fully with the regulations relating to accounting and valuation. This obligation brought accounting practices totally in line with tax. Under these circumstances, large enterprises sought advice from public inspection employees in their choice of persons responsible for accounting and finance and also made more effort to reduce practices contrary to tax law. To reduce non-compliance with tax, *reconciliation* regulations were added to the Tax Procedures Law with the law numbered 205 and dated 19th February 1963. (See appended clauses 1- 10) "This required the reconciliation of tax discrepancies between the tax payer and the administration before going to the special commissioners. If there is a condition indicated in the law (See TPL additional clause 1), the administration and the tax payer can seek reconciliation through sua sponte or additional assessment of taxes and the related penalties".[231] To be eligible for this means of reconciliation,

[230] For further information see Bulutoğlu, *op. cit.*, p. 230-50.
[231] Bulutoğlu, *op. cit.*, p. 647.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

companies' accounting practices must comply with the regulations of tax procedures law. In our opinion, the reconciliation board has also augmented the effect of fiscal legislation in accounting practise.

From the perspective of bookkeeping, the tax procedures law numbered 213 divided tradesmen into two groups. Large volume tradesmen, *first class merchandisers,* were to keep their books *according to the balance sheet method*, while *second class merchandisers* with a smaller volume of trade were to keep their books *according to the operating account method.* (TPL clause 176) In this application, the size criterion was defined as the amount of sales or business revenue. The law numbered 193 passed in 1961 did not alter the values contained in the 1950 law in spite of inflation, and counted first class tradesmen as those whose purchases were in excess of 200 000, with sales over 220 000 or business revenue in excess of 40 000. (See Table 4.1). In this period, there was resistance to being counted as a first class merchandiser and keeping the books according to the balance sheet method. In 1963, these values were increased two fold.[232] In our opinion, one of the most serious obstacles to the spreading of accounting practices and the double entry method is promoting the possibilities of business records to merchants and the continual raising of the thresholds. This increase can be explained in part by the high inflation of the last thirty-five years in this country. However, when we take into consideration the developments in computer technology and accounting software over the last 20 years, it is somewhat difficult to defend the argument concerning the keeping the business records system. The table below shows changes in the business records limits.

[232] In one respect, such an increase was not compulsary. The general level of agricultural prices rose 1.5 times in the period 1950 – 1960.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

T A B L E 5.1

Business Bookkeeping Measures and Comparison with TEFE

Year	Purchases Amount	Sales Amount	Revenue Amount
1950	200 000	220 000	40 000
1961	200 000	220 000	40 000
1963	400 000	440 000	80 000
1985	100 000 000	120 000 000	50 000 000
1993	720 000 000	864 000 000	360 000 000
1998	7 200 000 000	8 640 000 000	3 600 000 000
2000	22 000 000 000	27 000 000 000	11 000 000 000
2003	65 000 000 000	85 000 000 000	35 000 000 000
2005	88 000 000 000	120 000 000 000	48 000 000 000
2007	100 000 000 000	140 000 000 000	56 000 000 000

In the 1960-1970 period, governments brought in new taxes to increase the revenue from tax and to continue economic development in a stable climate. These can be listed as follows:

- "Private vehicle tax" passed in 1957 was changed to "land transport motor vehicle tax" in 1963 and in 1971 the rates were changed.
- The "landed property value increment tax" introduced on 29th July 1970 with the law numbered 1318 is a kind of income tax. The value increase on

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

liquidated land, ground plots and buildings became liable for taxation under this law.

- On 3rd January 1961, the National Unity Government increased "the registered value of land" ten fold. This increase was based on the fact that the value of products of the soil had risen ten to twelve fold compared with 1936-1938.[233] On 21st June 1961, the Founder Assembly reduced this coefficient from ten to two by the law numbered 309. On 29th July 1970, the property tax law numbered 1319 was brought in to replace the building tax law and the land tax law that had been in use for forty years.[234] "The Property Tax Law brought in the principle of declaration by the incumbents to avoid an excessive administrative burden when periodical changes were made to the tax base. This incumbent notification principle and the landed property value increment tax complemented one another from the perspective of reciprocal audit".[235]

- On 31 December 1961, the law numbered 193 abolished the animal tax that had been in use since 1931.

- Building construction tax was introduced on 29th July 1970 by the law numbered 1318. The same law introduced operating tax, which later would become value added tax. Operating tax "is a tax that levies 10 – 15 % on certain services (restaurants, restaurant-bars, beauty institutes and salons, bezique and billiard halls, hotels, motels, mocamps, discothèques and the like), payment of service and consumer fees made through businesses and certain wholesale sales (sales by jewelers and money lenders and television sales, perfumeries, hardware stores etc.) For this purpose the envisaged

[233] Bulutoğlu, *op. cit.*, p.386.
[234] Ibid., p. 390.
[235] Ibid. p. 391.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

procedures were the use of a wholesale sales document and a mechanized cash register"[236].

- On 11th July 1964 with the introduction of the law numbered 488 the stamp tax law that had been in force since 1928 was amended. In this way, in place of a complicated, unnecessarily detailed law that had been subjected to a number of amendments a simpler and more basic law was brought into force.[237]

- On 10th July 1964, with the introduction of the law numbered 492 the charges law applied since 1952 was repealed. Charges that were out of date due to high inflation were updated and the various scattered regulations on charges were collected into one cohesive document.

The purpose of all these tax arrangements was to accelerate economic development in a planned development period and to finance sound resources.

5.8 Developments Relating to the Promulgation of the Securities Exchange Act:

The starting point of the double entry accounting system was the merchandiser practices in the Italian Republic in the Late Middle Ages. The existence of multiple association institutions to bypass the "interest on loans" obstacle naturally led to the advent of double entry accounting and its prevalence. The creation of stock markets following the industrial revolution both developed the concept of multiple associations and created the obligation of a uniform approach in

[236] Ibid., p. 480-8.
[237] Ibid., p. 543-5.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

financial reporting to enable firms listed on the stock exchange to make comparisons among themselves. Neither of these two steps mentioned had been taken in Turkey until the 1960s, or if the steps had been taken, there was no question of their having been established. For this reason also, double entry accounting standards were lost in a market managed in this way.

The first studies on establishing a capital market in Turkey commenced in 1962. "At that time, the general opinion was that a capital market could be established by means of a law."[238] In the autumn of 1963, a group of five experts from the USA was invited to organise seminars on capital markets in Istanbul, Ankara, and Izmir, and this potential new institution was introduced to the Turkish public.

Following these studies, a "Capital Markets Study" was prepared by a group of experts[239] with the mediation of the Turkish Union of Chambers and published in 1964. With the help of the Turkish Union of Chambers the "Draft Law on the Instigation and Organization of a *Capital* Market" was prepared. This draft was sent by the council of ministers to the Turkish Grand National Assembly in 1967. (This was called by the name of the "First Draft"). This draft was discussed by the joint commission for two years and, in 1969, even though it was presented to the assembly speakership, it was barred by the statute of limitations due to the fact that the legislative year had come to an end.[240]

The out of date first draft was subjected to a few amendments and presented once more to the Turkish Grand National Assembly in 1970. This draft was given the name of the "Second Draft". The draft was examined at the temporary commission

---

[238] Tuncer, S. *Türkiye'de Sermaye Piyasası, (Teori – Uygulama).* Istanbul: Okan Publishing, 1985: 20.
[239] In the preparation of this study Prof Oktay Yenal, Prof Reha Poroy, Prof Turgut Erem and Özhan Eroğuz were appointed.
[240] Tuncer, S. *Türkiye'de Sermaye Piyasası, (Teori – Uygulama).* Istanbul: Okan Publishing, 1985: 18.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

and sent to the assembly speakership. The second draft, like the first one, was out of date before it was discussed in the parliamentary general committee.[241]

The capital markets law was not promulgated until 1981 after the military coup in 1980. This subject will be dealt with in a comprehensive manner in chapter five.

5.9 Developments in Higher Education and in Accountancy Training in the Period 1960-1980:

In 1960 there were six universities in Turkey. Four of these were founded during 1955-1959. Due to rapid population growth in Turkey and the fast growing number of high schools in parallel to this the number of applications to the universities went through the roof. In response to this development three new universities were opened in 1971 and another six from 1974 – 1975 making a total of nine new universities. Another development related to universities was the limitation of the universities' autonomy in 1971 through amendments to the 1961 constitution. In parallel to this limitation, the universities law numbered 4936, which had been in force since 1946, was replaced by the universities law numbered 1750, which was passed in 1973. The rapid increase in the number of universities increased the need for lecturing staff and the distribution of members of the teaching staff created a great imbalance. To illustrate this point, while there were 3,156 members of the lecturing staff at the seven universities in Ankara, Istanbul and Izmir in 1981, at the eight universities located outside these provinces there were only 85 members of the

[241] Ibid., p. 19.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

lecturing staff[242]. In the period of 1960-1980, the number of economics and commercial science academies, which provided a considerable amount of education in accounting, also showed a rapid increase. While the number of economics and commercial science academies was 4 in 1960, the number had grown to eight in 1965 and thirteen in 1973.[243] Moreover, in the period of 1960 – 1980, academic units of a very different structure of 72 educational establishments were founded in higher education in the context of the law. These were as follows:

- State engineering and architecture academies in the context of the law numbered 1184
- High Institutes of Islam in the context of the law numbered 1418
- Universities in the context of the law numbered 1750
- The Middle East Technical University in the context of the law numbered 7307
- Economics and commercial science academies in the context of the law numbered 7334
- High schools under the auspices of the Ministry of Education and other ministries

The number of the above mentioned universities and high schools providing accountancy training was forty-eight. In 1950, this number was only eight. "The number of students in accountancy education was 3,471 in 1950, whereas in 1980 it had risen to 60,653. In this era, business management, economics and accounting education spread to Anatolia. While in 1950 the percentage of students studying accounting was 14% of the total number of students, in 1960 it was 30.8%, in 1970 it

[242] Ateşünal, A. *Cumhuriyet Döneminde Yüksek Öğretimdeki gelişmeler. Ankara:* Ministry of Education, General Directorate of Higher Education Publication, Ankara, 1993: 74.
[243] Güvemli, *op. cit*., vol. IV p. 394.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

was 25.2% and in 1980 18%. The reason for the fall in this ratio after 1960 was the swift increase in the number of universities and high schools. The reason for the demand for accounting education was the development of the private sector as a result of the liberal economic policies followed after 1950 creating more and larger industrial, trade and service businesses in need of more personnel with an educational background in accounting and business administration."[244] Moreover, there was "an attempt to develop a formal framework of accounting" following the tax reform in 1949 and the introduction of the corporate tax, income tax and the tax procedures law and closure of the loopholes in the same in 1961; the practice of taking taxes from businesses based on financial statements became commonplace. As these practices all entailed accounting, the need was felt for accountants, even in small businesses."[245]

What is still missing from this picture is master's studies in the field of accounting and student numbers. The number of students at master's level can give an idea about the prevalence of accounting practices. However, the sectors that will bring about developments in accounting theory are the academicians, and their master's students are another reality. Naturally, we do not just need to know the number of academicians, but also the academic publications published in this period and their respective standards. This is a separate issue for research. What is seen to be the case is that the prevalence of practices precedes the development of theory.

[244] Güvemli, *op. cit*., vol. IV p. 396-7.
[245] Ibid., p. 397.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

5.10 Developments in the Auditing of Accounts and the Organization of the Accounting Profession:

The audit of accounts developed in parallel to the development of accounting. Modern Auditing Standards were produced by the audit committee of the American Institute of Certified Public Accountants in 1939 in the USA, and it is generally acknowledged that it began with the first standard (SAP) on the audit procedure published by this committee.[246]

"In our country independent external audit was realized in the Republican era. From the perspective of historical development, the finance ministry review committee founded in 1879 is the oldest. Until the 1970s, the important organizations conducting the tax and accounting dimensions of external audit were the account experts' board, which was established within the constitution of the ministry of finance, income controllers and tax inspectors. At the beginning of the twentieth century, accounting was oriented towards developments in tax applications. Thus in Turkey, where the starting point for taxation was the declaration procedure, the state made efforts to formalize accounting, which was the source where such application was made, and for this reason importance was given to external audit. On the other hand, the banking sector also tried to influence the content and form of the financial statements in the accounting records system of establishments related to them"[247].

In Turkey there were no independent inspection companies inspecting establishments in the private sector apart from tax inspection. Accordingly, when Turkey started opening up to the outside world in the 1970s, a number of Turkish companies started borrowing foreign credit and foreign capital began partnerships

[246] For further information on the development of audit history in various countries see Güvemli, *op. cit.*, vol. IV p. 599 – 636.
[247] Güvemli, *op. cit.*, vol. IV p. 646-7.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

with Turkish companies. Large inspection companies of USA origin (such as Arthur Andersen, Price Waterhouse, Touche Ross, and Arthur Young) began to fill this void.

The fifty-year struggle to provide the accounting profession in Turkey with a legal status came to an end. The first undertaking on this issue began with the "Accounts Expert" draft law prepared in 1932 by the trade ministry. This draft did the rounds of various ministries and ended up with the ministry of finance.[248]

The second undertaking in 1938 was again commenced by the trade ministry. This draft prepared under the name of "Accounts Expert" got as far as the parliamentary general committee. Due to the fact that the draft gave power of representation to accounting professionals at the hearing, lawyers objected to this arrangement. The draft was not accepted in the assembly. According to Prof. Mehmet Yazıcı, the basic reason for the rejection was that "in those years in the country, there were not enough qualified members of the profession and not enough, or large enough establishments and businesses."[249]

The third undertaking was during the making of tax reforms in 1949, when regulations concerning the organization of the accounting profession were inserted into the draft tax procedures law. Later, the opinion prevailed on arranging the accounting profession with a separate law and the regulations relating to the profession were removed, making this undertaking inconclusive, too.

The fourth undertaking was initiated by the ministry of finance this time in 1956, but this draft was not made law.

[248] Ibid., p. 674.
[249] Conveyor Güvemli, *op. cit.*, vol. IV p. 674

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The fifth undertaking was made once again by the ministry of finance just after the 1960 military coup, but this time it also remained inconclusive.[250]

The sixth undertaking "was made at the beginning of 1966 by the ministry of finance. The draft of the "Independent Financial Advisors Law" was debated at the council of ministers, accepted on 16-3-1966 and submitted to the speakership of the Grand National Assembly on 21-3-1966. The draft was accepted by the temporary commission and presented to the parliamentary speakership, but it was not possible to put it on the agenda and make it law."[251]

A period of eighteen years had passed in the attempts to give a legal framework to the accounting profession and two more undertakings would have to be made. This topic will be taken up again in the fifth chapter.

In 1942, the 14-person Professional Accountants Association was established[252] "to advance the profession of accounting through organization, to ensure the cultural, social and economic development of members, and to protect their benefits and common interests".[253] The first president of the association was Prof. Osman Fikret Arkun. The importance of this association is that it is the first association in Turkey to join the international federation of accountants. On 28th March 1975, by decision of the council of ministers numbered 7/9737, permission was granted to append the word "Turkey" in front of the name. In addition, by decision of the council of ministers numbered 7/17673 published in the Official Gazette dated 13.7.1979, permission was also given to cooperate with the organization called the "International Federation of Accountants (I.F.A.C)". In this

[250] Ibid., p. 674
[251] Conveyor Güvemli, *op. cit.*, vol. IV p. 675
[252] These fourteen people were leading accountants of the time. They were Abdullah Aker, Ali Alaybek, Cemil Parman, Faik Somer, Faruk Alrona, İsmail Otar, İsmet Alkan, Nihat Kiver, Osman Fikret Arkun, Rasim Saydar, Recep Aydın, Zihni Bayo, Sadık Bigat and Celal Atasoy.
[253] Guidelines for the Turkish Accounting Experts Association, clause of intent.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

way it was accepted as a member of the International Accounting Standards Committee (IASC). [254]

Prof. Mustafa Aysan, who served as president of the association, explains that the Turkish Accounting Experts' Association "did a great service in promoting and creating understanding of the profession, introducing world applications to Turkey, and contributing to Turkey's participation in professional studies abroad". In addition, this association "was an active participant in studies on the preparation of a professional law, prepared drafts for a professional law appropriate for the country, and advanced a proposal to the ministry of finance and the Turkish Grand National Assembly commissions." [255]

In the second half of the twentieth century, some of the important activities influencing accounting practices in Turkey are the Turkish accounting congresses, accounting training symposiums, and financing training symposiums, organized on a regular basis with university lecturing staff, practitioners, and people serving in state audit organs together with representatives of the business world.[256] The Turkish Accounting Congress was inaugurated at the Ankara University Faculty of Political Sciences in 1957. Thirteen congresses had been organized by 1980.[257] Accounting training symposiums began in 1979, and with the exception of one or two years have been held regularly every year.

The Accounting Experts Association and congresses are an indication of the gradual emergence of powers external to the state in the accounting field, their bonding into organizations, and even of their attempts to shape official applications by entering into relations with the state.

---

[254] Güvemli, *op. cit*., vol. IV p. 695-6.
[255] Aysan, M. "Türkiye'de Muhasebe Mesleğinin Gelişimi", *Mali Çözüm Dergisi.* September 1996.
[256] Güvemli, *op. cit*., vol. IV p. 705.
[257] For details see Aysan, M. "Türkiye'de Muhasebe Mesleğinin Gelişimi", *Mali Çözüm Dergisi.* September 1996.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

5.11 Developments in Accounting on an International Level in the 1970s:

It is generally assumed that the oldest accountants' organization is the International Accounting Congress. The first congress was held in 1929 in New York. International Accounting Congresses are held once every five years. In October 1972, at the tenth international Accounting Congress held in Sidney, it was proposed that an international committee be set up to arrange international accounting standards "undertaken by a working group formed by England, Wales, and the United States".[258] This proposal came to life in 1973, and on 29th June 1973, the International Accounting Standards Committee (IASC) was created by nine founder members[259]. The first standard published by this committee in 1975 goes by the name of the Presentation of Financial Statements - IAS # 1. Up to now, almost forty standards have been published. It also published interpretations that had to comply with the Standing Interpretations Committee SIC set up within the IASC.

These standards and interpretations gained importance in a world of growing globalization and financial integration, and shaped global accounting practices. In 1979, shortly after the Turkish committee was established, it became a member of this committee and international standards were a significant influence on Turkish accounting standards from the 1980s.

[258] Güvemli, *op. cit*., vol. IV p. 583.
[259] The nine founder member countries were Australia, Canada, France, Germany, Japan, Mexico, Holland, England, Ireland and the United States of America.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

5.12 Economic and Political Developments in the 1960 - 1980 Period and their Influence on Accounting Practices:

As has been mentioned previously, Turkey moved into a planned economy in 1963. The state-planning organization adopted a strategy based on a mixed economy and import substitution that envisaged an annual development of 7% within price stability. The plans prepared covered a five-year period. The five-year plan for the 1963-1967 period took the approach of these envisaged objectives and showed that development within price stability was possible in Turkey.

While in 1950 in Turkey there were 2,618 manufacturing factories, in 1960 the number was 5,503 and by 1980 it had gone up to 8710. According to employment sectors, the greatest increase was in the metal industry, metal goods and machine tools and mechanised vehicles. In 1950, there were 103 state owned industrial establishments. The figures for enterprises under state control for 1960, 1970, and 1980 were 219, 254, and 408, respectively. [260]

The figures for trade establishments were 154,267 in 1963, 195,694 in 1970, and 418,541 in 1985.[261] However, it was not possible to maintain price stability after 1968 in this atmosphere of swift development, and while in 1968 the wholesale price index was 127.3, in 1970 it had risen to 145.7, and in 1975 to 343. It had doubled, and in 1979 it had increased to 1,230.7. In 1980, inflation had reached a three-figure number; it had reached 107.2 % and the wholesale price index had risen from 1,230.7 to 2,550.6.[262] Among the factors influencing price increases to this level were an inability to protect fiscal stability, budget deficit, the oil crisis of 1974, the embargo

---

[260] Turkish Statistical Institute. *Statistical indications- 1923 -1995.* Ankara :1996.
[261] Turkish Statistical Institute . *The Turkish Statistical Yearbooks of 1979* and *1987.*
[262] Turkish Statistical Institute, *Monthly Statistics Communiques 1980* and Uman, N. *Yeni Değerleme: Teori ve Uygulama*. Istanbul: Çağlayan Printing, 1983: 4.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

on Turkey due to the Cyprus military operations, shortage of foreign cash, and export and investment deficits.

The youth movement starting in France in 1968 was reflected in Turkey in clashes between the political left and right. The military intervention on 12th March 1971 removed the Justice Party from power and replaced it with a government composed of technocrats. The new government made substantial changes to the 1961 constitution; a new universities law was prepared and following the general elections held in 1973, the administration was handed over to civilians. As a single party majority could not be obtained in this election the era of coalitions began. Due to events in Cyprus in July 1974, the Turkish military intervened in Cyprus; and in response to this intervention the United States of America placed an embargo on Turkey.

After 1975, the state of anarchy arising from the rightist-leftist clashes in the country grew more extreme. After 1977, important people were killed and by the 1980s, Turkey had entered an era where 25-30 people a day were being killed. The country was able to emerge from this chaos as a result of the military intervention staged on 12th September 1980. The new military regime abolished the 1961 constitution, formed a "privy council", and prepared a new constitution that was presented to the public in 1981. This constitution, which is still in force today, was accepted with a majority of more than 90%. A new higher education law was prepared and all universities and high schools were brought under one central organ, the higher education foundation (Y.Ö.K).

Due to the fact that the military interventions of 1960, 1971 and 1980 shook up the administrative quo and paved the way for new orders, it can be said that these coups d'état had a positive effect on accounting practices. The attempt to reorganize

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

state economic enterprises after the 1960 insurrections was continued by the civil administrations that followed. The "Law on State Economic Enterprises and its Organizations and Affiliates", which was the framework law for state economic enterprises numbered 440, was promulgated on 21st March 1964 and the "Inspection of State Economic Enterprises Law" numbered 468 came out in the same year. Studies based on these laws created the "State Economic Bodies' Uniform Chart of Accounts", and the said system was brought into application in 1972.

In actual fact, there are no evaluations directly relating to accounting and the accounting profession in the five-year development plans. However, there are regulations on the reorganization of state economic enterprises, the realistic nature of feasibility reports from a financial perspective and the securing of financial resources before making investment.[263]

After the 1960 coup, the income tax law was rewritten, and the tradesmen and agricultural sector, which had slipped through the loopholes, were taken into the scope of taxation on income. The tax procedures law was also rewritten, the loopholes were closed, and applications to increase tax security such as the declaration of assets, average profit margin and tax statements were added to the tax procedures law. In addition, the number of experts on the tax inspectors' board was increased substantially under the law dated 24th May 1963 and numbered 230.[264] All these measures were responsible for the total validation of the regulations relating to accounting in the tax procedures law in Turkish accounting practices. This application was the most important characteristic of the 1960 -1980 era.

While accounting practices showed great variation in private sector accounting practices, in the public sector, which had switched over to the uniform

[263] Güvemli, *op. cit*., vol. IV p. 49-51.
[264] Güvemli, *op. cit*., vol. IV p. 666.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

chart of accounts in 1972 as explained at the beginning of the chapter, the application of the basic principles of financial statements and basic accounting concepts applied in the USA was initiated in state economic enterprises. In 1974, with the coordination of the DTP, the *"*Uniform Accounting Coordination Permanent Specialization Commission*"* was established to eradicate difficulties encountered in the application of the uniform accounting system and to ensure proper compliance with the system. In 1976, this commission prepared the "Uniform Cost Accounting Guide" containing the accounting framework for cost accounting; application of this guide was initiated from 1977 in the state economic enterprises. This was the first application in Turkey of uniform cost accounting.[265] Finally, productivity began to take over from tax and legislation.

When it was seen that the prepared sample balance sheets complied with the related articles of the tax procedures law and Turkish Commercial Law, new sample balance sheets were arranged and applied in compliance with these laws and the presidency's mandate dated 29th December 1979 and numbered 7625[266]. This mandate is an indication that the priorities of tax laws were not lost in accounting practices. The effect of the uniform chart of accounts developed for the state economic enterprises on the private sector only materialized with the founding of the Capital Markets Board.

[265] Akdoğan, *op.cit*., p. 23.
[266] Güvemli, *op. cit*., vol. IV p. 485.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

CHAPTER 6

DEVELOPMENTS IN ACCOUNTING PRACTICES DURING 1980 – 2007

The years between 1980 and 2007 constitute a period in which radical modifications have been experienced in Turkish accounting practices. The State directly oriented accounting practices through important amendments effected in the Income Tax and Corporation Tax Acts and the Tax Procedure Act. Also, legislation closely concerning accounting practices, such as the Securities Exchange Act, the Public Accountancy, Financial Consultancy, and Chartered Financial Consultancy Act, the Value Added Tax and the Private Consumption Acts have been passed, and institutions such as the Istanbul Stock Exchange and the Turkish Accounting Standards Board have been set up during this period. It may be asserted that the authoritative legislation which was in force in accounting practices up to this period was hardly hit by the developments from 1980 onwards, and the evolution of accounting started to resemble gradually the models in the economically developed countries.

The period will be analysed in two sections. During the first ten-year-period, it will be observed that in spite of an evolution which has already started in the economical structure, authority in accounting practices still pertained to the legislator. The second period, however, constitutes a typical example of changing economical infrastructure giving shape to the superstructure. From accounting point of view, this situation is materialized in the application of law through the presence of various other institutions alongside the legislator.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

6.1 Amendments in Financial Acts during 1980 - 1990:

During this period, accounting practices continued to be shaped directly by the State through tax acts, introducing important amendments in the Income Tax and Corporation Tax Acts and the Tax Procedure Act. The number of these amendments reveals to be pretty high although there appears no model difference until the year 1990. Policies pursued from 1980 onwards are among reasons for this situation, like export-oriented industrialisation, economic opening to the exterior, and attempts to attenuate State control over the markets. Amendments which have considerably influenced practices can be summarized in chronological order as follows:

6.1.1 Amendments to the Income Tax Act during 1980 - 1990:

- Article 80 of the Income Tax Act Number 2361 of 24 December 1980 brings in considerable changes in favour of taxpayers. Major revisions are the following: Amendments effected and important relieves introduced on income taxes for taxpayers in matters relative to capital allowance requirements, capital allowance items and proportions, amounts of depreciation, cancellation of the completion percentage system in constructions spanning over more than one calendar year, cancellation of lump sum taxation for mining enterprises and shipping agents carrying cargo-passengers, implementation of operating procedures basis in agricultural income, definition of wages, lump sum taxation in self-employment income, allowances on real estate returns, definition of returns on stocks and bonds and exemption cases, rise in other revenues and non-taxable revenue rises, annual

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

revenues not to be included in a declaration, compensation and offsetting of losses against profits, new elements in individual declarations, tax periods, and base rate agricultural earnings.

- Article 34 of the Income Tax Act was amended with Act No 2574 dated 31 December 1981. According to this amendment, the criteria of business office leasing was included to general conditions of lum-sum taxation; particular conditions of lum-sum taxation were re-established; disclosing in accounting records all amounts levied as withholding taxes became obligatory; income tax scales were re-determined; and offsetting advance tax payments was stipulated.

- Article 19 of the Income Tax Act was amended with Act No 2772 dated 31 December 1982. According to this amendment, average profit margin was re-formulated, and the principle of "life standard" was introduced for use in tax inspections.

- Article 12 of the Income Tax Act was amended with Act No 2995 dated 18 April 1984. Upon the complaints of taxpayers, restrictions were imposed on the principle of property declarations and expenses. According to this amendment, the following clause was prescribed: "No retrospective inspection or assessment can be effectuated against taxpayers on the basis of earlier declarations of property and expenses. Neither property items declared by taxpayers in former tax periods nor annual income and expenses for previous years may serve as data during tax inspections and evaluations" (ITA, temporary clause 22). Tax inspection systems such as the principle of property declarations and expenses were therefore abolished de facto.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Amendments to the Income Tax Act continued up to 1989 through Acts No 2454, 3239, 3319, 3380, 3393, 3418 and 3505, gradually losing integrity and becoming an act full of deficiencies.

6.1.2 Amendments to the Corporation Tax Act during 1980 - 1990:

- As already mentioned above, no new Corporation Tax Act was elaborated after the coup of 1960. Amendments in parallel to the Income Tax Act were implemented through the Act No 192 dated 30 December 1960. A new definition of “covered capital” was set forth with this Act. Also, new principles were adopted.in regards to tax drawees, taxation time, and liquidation proceedings.

- Article 21 of the Corporation Tax Act was amended with Act No 199 dated 18 February 1963. New adjustments were formulated for revenues earned in Turkey, declaration principles for corporations, taxation period, offsetting of retained taxes, average reference rates, first five-year investment allowances, and transfer of losses for previous years.

- Article 20 of the Corporation Tax Act was amended with Act No 2362 dated 24 December 1980. According to this amendment, “financing reserve” rebate was implemented, foreign-based taxpayer liability redefined, timing for special declarations rearranged, and new principles for liquidation proceedings brought in.

- Article 10 of the Corporation Tax Act was amended with Act No 3239 dated 4 December 1985. According to this amendment, withholdings were re-described for corporations subject to foreign-based liability, and capitalised earnings were dispensed during the first five years.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Article 5 of the Corporation Tax Act was amended with Act No 3332 dated 25 March 1987. According to this amendment, corporation tax rate was raised up to 46%, earnings from participation sales tax exempted if added to the capital, and similar facilities adopted for banks.

- Article 3 of the Corporation Tax Act was amended with Act No 3505 dated 3 December. According to this amendment, provisional tax was reinstalled and will be paid every month at the same time as the Value Added Tax.

As observed above, amendments were made continuously to the Corporation Tax Act during the period 1980 -1990, wherein said Tax was used as incentive instrument.

6.1.3 Ratification of the Value Added Tax:

Ratification of the Value Added Tax Act is among the fundamental modifications adopted in the Turkish Fiscal System during the period 1980-1990. Apart from the effects to State income, said act has profoundly influenced accounting practices. We shall now briefly mention the details of this influence.

Taxes similar to the Value Added Tax have been imposed in Turkey through the Expense Tax Act No. 6802, the Operating Tax Act No. 2456, the Finance Act No.1318, and the Sugar Excise Tax Act No. 6747. The Value Added Tax Act No. 3065 adopted on 25 October 1984 abolished these taxes and comprehends all commercial, industrial, and agricultural activities, and all supply and import of goods and services, communications services, betting activities, and oil and gas shipment. Taxpayers are the goods suppliers and service performers. Exporters and transit transporters are not subject to Value Added Tax. There are also diplomatic

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

exemptions provided on reciprocal basis and exceptions bearing social and military purposes.

The tax base "is the counter value which corresponds to the cost of transactions. In import, it is the CIF price of a good." At the start of the implementation of the act, the Value Added Tax rate was assessed as 10%. Goods and services enumerated in List No. 1 were taxed at 1%, those in List No. II at 3%, those in List No. III at 5%, and those in List No. IV at 15%. Companies were required to subtract their output VAT from their input VAT, and in the case of a positive difference, to file a declaration and effectuate payment by the night of the 25th day of the month following the tax period[267]. VAT on depreciable assets was determined to be deducted from input VAT over three years and in three equal instalments.

VAT introduced discipline in the Turkish accounting system. In order to be able to file VAT declarations, businesses are enforced to collect all bills and documents at the shortest possible time and update their records by the 25th day of the following month. Besides, as per the 54th article of the VAT Act, "value added taxpayers are under the obligation of keeping their compulsory books so as to allow the calculation of this tax and the control thereof."

On the other hand, expenses to wage earners are subject to documentation for any tax refunding claim thereupon. For the good functioning of the system, Act No 3100 on the "Obligation for Value Added Taxpayers to Use a Payment Registry Device" was adopted on 6 December 1984. Said Act prescribes that slips printed by

[267] Article 39 of the Value Added Tax Act determined a tax period as three months, and the Council of Ministers was authorised to reduce this period down to one month. Exercising this power, the Council of Ministers adopted the principle of filing monthly VAT declarations.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

such devices, also known as cash registers, may substitute for invoices in small account.

Acts No 3065 and 3100 and the amendment on income tax refunding accorded to wage earners resulted in a relative decline of unrecorded transactions, and the VAT has become the tax with the highest tax proceeds in the Turkish fiscal system.

6.1.4 Amendments in the Tax Procedure Act during 1980 - 1990:

- 26 articles of the Tax Procedure Act were amended with Act No 205 dated 19 February 1963. According to this amendment, a clause was included attributing tax imposition to tax authorities; lump sum rates were reviewed under new principles, agricultural earning limits were re-defined and the application period thereof prolonged, conciliation board matter was appended thereto under a separate chapter; and a provisional clause (TPA Clause 5) was included stipulating that "depreciable assets are appraised at cost price, and if cost price is unknown, then at market price on the date of acquisition to be determined personally by the concerned taxpayer." The Act also introduced new principles concerning taxpayers' selection of accumulated depreciation method.

- 98 articles of the Corporation Tax Act were amended through Act No 2365 dated 30 December 1980. Afore-mentioned amendment set out new principles for the application of fiscal acts and for the justification of taxes; stipulated public announcement at concerned tax departments of amounts paid by income and corporation taxpayers; introduced new basis for additional tax assessment; clarified conditions of arbitrary assessment; set forth new guidelines for the calculation of

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

average profit margins; re-determined agricultural earnings, qualifications required for eligibility to provincial commissions, and meeting quorums; and filled the gaps in official communications. In addition to this, the object of tax inspections was reformulated; limits of first class merchants were raised; drawing up daily cashbooks, sales and revenues, proceeds, professional service receipts, conveyance bills, passenger lists, and holding a tax card became compulsory; day-to-day record keeping was enforced; "current market value" and "reference value" and "reference wage" concepts[268] were inserted into the Tax Procedure Act; building and land tax values were required to be calculated over current market values; taxpayers were accommodated the flexibility of including into cost any notarial charges, court expert's fee, and purchase taxes incurred during real estate purchases; definition of doubtful receivables was revised; facility was conceded to directly writing off low-value assets instead of setting aside allowances for depreciation; principle of non taxation was introduced for gains earned over depreciable asset sales provided that such gains are employed in purchasing new fixed assets during the following three years (renewal fund); definition of doubtful receivables was restricted; fiscal penalties were re-described, circumstances of tax fraud, gross fault, blame, and irregularity, as well as punishments to impose in each case were drawn up in detail and included into the act.

- Tax-court cases previously registered under Articles 379-412 of the Tax Procedure Act were taken out of the scope of said Act and inserted into the Administrative Jurisdiction Procedure Act No 2577 on date of 6 January 1982.

[268] According to the Tax Procedure Act, the current market value of an economic asset is the normal sale or purchase price as of appraisement date (TPA, Art. 266-bis), whereas a reference value "concerns an asset of which the true value is inappreciable or unknown or cannot be fairly assessed, and corresponds to the value that asset would have, considering a similar asset, if put on sale as of appraisement date (TPA, Art. 267)".

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- 14 articles of the Tax Procedure Act were amended with Act No 2791 dated 21 January 1983. Said amendment redefined assessment of independent taxation and clarified the lum-sum tax basis. Depreciation rate list method was abandoned for the economic life of depreciable assets, and it was agreed that "the economic value of depreciable assets could be abated at proportions set up freely by taxpayers themselves but not exceeding 25% of the value thereof" (TPA, Article 315)[269]. The amendment also concluded that in declining balance depreciation method "depreciation rate employed could be the double of straight-line depreciation rate but not exceeding 50%" (TPA, Article 315, paragraph 2). "The Ministry of Finance, who determines and announces depreciation rates, is empowered to bring amendments thereon when necessary and to settle all other matters related to depreciations" (TPA, Article 318, clause 2). The most important modification introduced by Act No 2791 is the reconstitution of the 11th provisional article of the Tax Procedure Act, which came to be known as the "revaluation of fixed assets".

As explained in Chapter Four, revaluation method was implemented in the Tax Procedure Act through Act No 205 passed on 28 February 1963. Revaluation technique adopted in 1963 "could not be executed because timing for revaluation and references to take into account (coefficients to use) were not determined by the Ministry of Finance or published in the Official Gazette."[270] Yet, during the period 1963 – 1982, wholesale price index rose from 100.0 to 4367.5; in other words, general level of prices multiplied approximately by forty three. During the years 1972 – 1982, the increase was twenty two times.[271] In the presence of so high price increases, instead of applying inflation accounting, revaluation technique was

[269] TPA brings an exception thereon: "Values of lands and buildings as well as assets depreciable at rates exceeding 25% are abated on the basis of proportions determined and announced by the Ministry of Finance". (TPA , Art. 315, clause 2)
[270] Uman, N. *Yeni Değerleme: Teori ve Uygulama*. Istanbul: Çağlayan Printing, 1983: 49.
[271] Uman, *op.cit*.,p. 3-4.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

adopted in Turkey, which in fact is a partial arrangement without integrity. According to Act No 2791 adopted as continuation of such approach, " Income and corporate taxpayers keeping records on balance sheet basis may revaluate depreciable assets[272] included in their balance sheets and depreciation amounts thereon as of 1982 accounting period. Revaluation is obligatory for economic state enterprises."

"Revaluation is calculated by multiplying concerned asset and accumulated depreciation thereon by the coefficient for the year wherein said asset was booked into the assets of a balance sheet." "Value increases from revaluation are booked in a special fund account (revaluation reserve fund account) on the liability side of a balance sheet."

Although coefficients used in revaluation proceedings are normally determined as per general price indexes, TPA opted for a simpler method. The coefficient of 1 was set for depreciable fixed assets capitalized in 1982, and 11 for depreciable fixed assets capitalized in 1972 and earlier years; and as for the in-between years, increasing retrospectively by 1 for each year. (For example, 2 for 1981 and 3 for 1980). Yet, wholesale prices during the same period were multiplied by 22. "Legislator's purpose in holding down revaluation coefficients was both to restrain excessive erosion in public revenues and to prevent overvaluation of assets in financial reports."[273]

The basic object of revaluation is the adjustment of balance sheets by increasing depreciable assets values at inflation rate and, by the same occasion, the adjustment of income statements by evaluating fair values for depreciation. Act No

[272] Assets worth less than 5000 Liras, foreign currency gains added to asset costs, cinema films, goodwill, special costs, establishment and development costs, organization and research costs have been excluded from revaluation scope.
[273] Uman, *op.cit.*,p. 69.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

2791 not only held coefficient figures reduced almost by half but also ruled that "income taxpayers shall make depreciation allowances over pre-evaluation values." Whereas corporate taxpayers "shall make depreciation allowances for fixed assets over new values."[274]

According to Act No 2791, "capital and paid-up appreciation surpluses thereon, deposited in a special fund account on the liability side of a balance sheet, are held as reserve as per banking laws. If a revaluation fund is transferred into an account in any way whatsoever other than being added onto the capital stock or is withdrawn from the enterprise, then said fund shall be deemed as earnings for the concerned period and shall be subject to taxation." Assuming that revaluation was to be effectuated only once, Act No 2791 treated revaluation matter through provisional Article 11. In view of rapidly proceeding inflation, the temporary arrangement nature of revaluation was annulled by Act No 3332 in 1986 and a permanent aspect was provided through Article 298-bis appended to the Tax Procedure Act. Calculation method of the "revaluation rate" (coefficient) was also included therein under separate clause.[275] Revaluation rate was not only employed in adjusting values but also served as indexing coefficient in the revision of taxes and fiscal penalties throughout the high-inflation period.

- 38 articles of the Tax Procedure Act were amended with Act No 3239 dated 4 December 1985. This amendment rescheduled special payment dates for taxes, set out new principles for fiscal inspections, changed declaration periods, raised the limits for first class merchants, abolished registers for production and

[274] Act No 2791 brings the exception that "depreciation allowances for real properties shall be calculated over their pre-revaluation values."

[275] According to TPA, Art. 298-bis, "the rate of revaluation to take as basis in assessing a value as of the end of an accounting period corresponds to the difference incurred by the State Institute of Statistics in the General Index of Wholesale Prices in October (the month of October included) of the revaluation year as compared to that of the previous year."

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

small-scale retail taxes and stamp duties, considered legally void any invoice drawn up later than ten days, stipulated that rediscounts were to be applied to both receivable and payable notes, judged delays in tax and duty declarations as major irregularities, added new items to minor irregularities, and implemented the penalty of closing business.

Income Tax General Communications, Corporate Tax General Communications, Value Added Tax General Communications, and Tax Procedure Act General Communications were issued to bring clarification to the structural amendments in fiscal procedures and to provide orientation thereto. These communications, more than 500 in number, and different legal decisions rendered the fiscal procedure even more complicated. The only class deriving benefit from this situation was that of accountants, fiscal inspectors, and income controllers who mastered well said procedures: This explains why said experts constituted the group of staff the most sought by the private sector at that time. Not only financial consultancy offices were set up to meet the requirement but international audit companies also started opening branches in Turkey.

.

6.1.5 Adoption of the Fuel Consumption Tax:

Fuel Consumption Tax which became one of the most important indirect taxes was adopted through Act No 3074 on date of 7 November 1984. Said tax was at the start levied over sale price but later became a fixed-amount tax. As fuel consumption taxes have been included into the scope of Private Consumption Tax through Act No 4760 dated 6 June 2002, Act No 3074 ceased to have force.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

6.1.6 Establishment of District Administrative Courts, Administrative Courts , and Tax Courts:

In order to ease the burden of the State Council and accelerate the solution of fiscal disputes, Act No 2576 was adopted on 6 January 1982 on the Establishment and Duties of District Administrative Courts, Administrative Courts, and Tax Courts.

Cases concerning disputes for less than a certain amount[276] are processed at tax courts with single judge, and disputes for higher amounts at tax courts with three judges.

6.1.7 Approval of Act on Tax Refund to Wage Earners:

Act No 2978 on Tax Refund to Wage Earners[277] was approved on date of 2 February 1984 to be effective from 1 January 1984 onwards. Taxpayers gaining wage earnings or retirement pays were given the possibility of being refunded a certain percentage of their expenses. The object aimed was to force unrecorded economic activities to be recorded and to increase income from Value Added Tax. The system remained in force, with various amendments, up to 2007.

6.2 Approval of the Securities Exchange Act:

Capital markets constitute an important keystone in the evolution of accounting practices. As driving forces, these markets have replaced multi-partnership enterprises of the period prior to the industrial revolution, enabling the

[276] This amount was set as one thousand YTL for 2007.
[277] The name of this Act was changed as "Act on Tax Refunding" through Act No 3239 adopted on 4 December 1985.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

improvement of reporting techniques and standards of financial accounting in order to provide correct and comparative information to investors in the market. As mentioned in the fourth chapter above, a securities exchange act has been on Turkey's agenda since 1967. Two bills were drafted during this period but none became law. Following 12 September 1980, the National Security Council discussed the second bill in the second half of 1981, approved Act No 2499 entitled the Securities Exchange Act, after slight amendments, on 28 July 1981, and published it on 30 July 1981 in the Official Gazette No 17916. Entry into effect of said law (excluding articles 17-29 and provisional articles 1 and 4 drawing up the constitution and functioning of the Capital Markets Board) was materialized on 1 February 1982, six months after publication.[278]

"The object of the Securities Exchange Act is to achieve an effective and expansive participation of savings into economic development by way of investing in securities. In order to fulfil this purpose envisaged by law, it is necessary that the capital markets operate in *security, openness,* and *stability*, and that the savers' interests be protected."[279]

In order to attain this objective, the Capital Markets Board published soon after its establishment, on 13 February 1983, the "Communication of Principles on Standard Financial Statements and Reports". Standards were set out and published therein (Communication Serial VIII, No 2) concerning:

- detailed balance sheets,
- detailed income statements,
- condensed balance sheets,
- condensed income statements,

[278] Tuncer, *op. cit*., p. 18-9.
[279] Ibid., p. 20.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- audit and statutory audit reports,
- board of directors reports

which are obligatory to prepare for corporations (enterprises) subject to the Securities Exchange Act as well as for brokerage companies negotiating at the capital market.

In order to provide regularity and give the required content to the above-mentioned financial statements, the Capital Markets Board issued the "Standard Chart of Accounts" through Communication Serial VIII No 7 dated 1 February 1984. In this communication, the Capital Markets Board explained that

> Standard Chart of Accounts and application principles thereof have been elaborated to assist the preparation of financial statements to be communicated to the general public and to bring clarification to capital markets by ensuring said tables to be drawn up in line with generally accepted accounting principles, enabling healthy comparisons and analysis; and to provide to shareholders, concerned public institutions, and the general public the means of solid examination of the financial situation of a corporation.[280] (Communication Serial VIII No 7).

"Communications issued on the basis of the Securities Exchange Act (Serial VIII, no 2 and 7) have filled in a substantial gap relative to public disclosure of accounting records and to providing the general public with information thereon. This constitutes an important milestone in our country where accounting data has been considered confidential and accounting records rather a legal imperative."[281]

"Regulation on Independent External Auditing in Capital Markets" was published in the Official Gazette No 19663 on 13 December 1987. Meanwhile, in view of critics and difficulties encountered during application, the Uniform Chart of Accounts previously put into effect was revised and became effective as of 29 January 1989" (Communication Serial IX No 2).

---

[280] For an extensive critic on the CMB Standard Chart of General Accounts, see. Uman, N. *Standart Mali Tablolar ve Hesap Planları.* Ankara*:* Turkish Capital Market Publications,1984: 317-40.
[281] Tuncer, *op. cit*., p. 332.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

On 28 December 1990 “Standard Financial Statements for Stock Exchange Investment Funds” was published (Communication Serial XI No 6).

The Capital Markets Board issued the “Communication on Stock Brokers Accounting Charts and Application Principles Thereon” on 31 January 1992 (Communication Serial XI No 7).

As observed, the Capital Markets Board has drawn up and implemented accounting communications independently from financial procedures, generally in line with International Accounting Standards or the American FASB’s, and has had a direct influence on the application. This way, companies subject to the Securities Exchange Act have adopted practices suitable to International Accounting Standards. On the other hand, at the same time as taxpayers, these companies are also obliged to set up and present to tax authorities balance sheets compatible with fiscal procedures. This dualism is still continuing today.

However, there is a point which should not be disregarded; the Capital Markets Board and the communications issued thereby have been and are still influencing the Turkish accounting practices profoundly. For the first time, market forces have been influential in the shaping of policies, and it appears that their influence will gradually augment.

6.3 Legal Arrangements Concerning State Economic Enterprises:

The approach of post-1980 governments towards State Economic Enterprises was in parallel with changing economical and political developments. The position, structure, and accounting practices of SEE’s were modified through a series of acts. But it soon came to evidence that the accounting systems of SEE’s, regarded “behind

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

the times", are fundamentally not apt to lead the movement in Turkey, same as it has been in the 1930s or 1960s

Act No 440 of 1964 was abolished through Decree Law No 60 adopted on 11 April 1983. Decree Law No 60 was converted into Act No 2929 on 19 October 1983. Said Act remained in force for a period of seven months, after which it was abolished on 8 June 1984 with Decree Law No 233. State Economic Enterprises still conduct activities within the frame of this Decree Law No 233 and annexes and amendments thereon.

As explained in the fourth chapter above, State Economic Enterprises (SEE's) began in 1972 applying the "uniform accounting system" worked up especially for them and adapted the cost accounting system in 1977. After the 1980s, governments abandoned the policy of mixed economy and import substitution, and opted for a development policy open to the exterior and based on the private sector. SEE's consequently lost their economic priorities and, in accordance with global developments, started to be privatized by the successive governments. This shift in politics prevented the "uniform accounting system" employed in SEE's to develop and become prevalent. In 1986, the government of the period adopted Privatizations Act No 3291 in order to implement expedient changes of policy. According to this Act, "for enterprises, establishments, institutions, subsidiaries, businesses, and operating units declared to be privatized, it is the Supreme Planning Council which is empowered to set out activities, structure, management, auditing, and capital amount, taking also all facilitating measures, until public shares in the capital thereof fall under 50%."

As per Article 11 of Act No 4046 the audit of enterprises under privatization program is same as audits applied in SEE's until shares in the capital fall under 50%.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

6.4 Uniform Chart of Accounts and Financial Statements in Banks:

Law Decree No 70 concerning banks was issued after 1980. Article 51 of this Decree stipulates: "banks are obliged to draw up their accounts, annual balance sheets and income statements in accordance with the uniform chart of accounts, standard balance sheets and income statements, and the prospects related to formulations and applications thereon, which will be prepared by the Banks Association of Turkey and enter into force upon the approval of the Ministry of Finance." To comply with this requirement, the Uniform Chart of Accounts was prepared for Banks in 1985.[282] Developments in the financial statements of banks since 1960 are illustrated in appendix: 5.2, and 5.3.

The new Banking Act No 3182 was approved on 2 May 1985. Legal arguments on the Act was stressing that it would be more proper to regulate important financial institutions such as banks through an Act rather than Decrees. According to the Act, banks were henceforth attached to the Undersecretariat of Treasury and Foreign Trade instead of the Ministry of Finance.[283] Also according to the Act, "private banks losing their financial strength would be taken over by the State" and transferred to the "Savings Deposit Insurance Fund" established by this Act.

The Banks Association pursued activities for the preparation of a uniform chart of accounts in the 1990s too, and in 1992 adopted the uniform chart of accounts

[282] Güvemli, *op.cit*., vol. IV, p.508.
[283] Güvemli, *op.cit*., vol. IV, p.508-9.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

which is currently in use. The aim of this chart "is to ensure that financial reports of banks operating in Turkey can be audited and conform to international standards."[284]

According to Decree Law No 538, complementary to Act No 3182 and adopted on 22 June 1994, customers applying for a bank loan are also required to have their balance sheets and income statements approved by chartered accountants. The Ministry of Finance stipulated in a regulation issued on 31 May 1995 that "chartered accountants will add declaratory clauses to account books, balance sheets and income statements of customers applying for a bank loan, asserting that said documents conform to procedures, accounting principles and accounting standards in force in Turkey."[285]

This development attracts attention from two viewpoints: The first one is that the Ministry of Finance is required to "take counsel." Said Ministry, totally independent until then in taking this type of resolutions, is now faced with the obligation of working in coordination with the three foregoing institutions. The second one is that a resolution taken this way will have no impact for the Ministry from fiscal point of view. This proves that the Ministry of Finance, although remaining still the only authorized institution, was in some way forced by forces exterior to the ministry to adopt such regulation.

---

[284] Akdoğan, o*p. cit*., p. 25.
1992 is also the year in which the Uniform Accounting System to be implemented throughout Turkey was published.
[285] Güvemli, *op.cit*., vol. IV, p. 510. This also reveals that the matter did not become operational.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

6.5 Uniform Chart of Accounts and Financial Statements for Insurance Companies:

As explained in the Fourth Chapter above, the most important legislation imposed on insurance companies is the Insurance Companies Control Act No 7397 adopted on 21 December 1959. This Act not only constituted insurance institutions (like Insurance Companies Association, Insurance Control Board) but also introduced through Article 39 the obligation for insurance companies "to draw up and publish uniform balance sheets and income statements and financial ratios."

"Uniform Chart of Accounts and Uniform Financial Statements" formulated by the Insurance Control Board in view of insurance companies was completed and submitted to the Undersecretariat of Treasury and Foreign Trade in 1994. Said Undersecretariat endorsed the chart on 31 December 1995 and diffused it to insurance companies for implementation. Insurance companies are still using this "Uniform Chart of Accounts and Uniform Financial Statements". Although the chart of accounts is unique, financial statements, comprising balance sheets and income statements, are in three sets.[286]

"It was pointed out that these financial statements do not meet the needs, assets and resources of balance sheets in particular do not correspond to the length of period required for conversion into cash, and do not comply with the principles set out by the General Communication Related to the Implementation of the Accounting System. However, this structure, wherein profit and loss statements can be drawn up more coherently and *technical revenues and technical expenses* are booked in

[286] Financial statement sets were designed separately for insurance companies handling elementary insurances, for those handling life insurances, and for those handling full scale insurances (handling both elementary and life insurances).

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

addition to normal revenues and expenses, has been conserved throughout the twentieth century." [287]

6.6 Activities of the Turkish Standards Institute (TSI):

There was one more radical change during this period. In addition to the Capital Markets Board, another institution, the Turkish Standards Institute, engaged in eliminating the monopoly based on fiscal legislation in accounting practices. A committee founded in 1987 was entrusted the task of setting up the Turkish accounting standards. 43 accounting standards were taken into the business scope of the committee, and drafts were prepared and developed up to the first opinion-formulation stage concerning the:

- "Reporting – Balance sheet form" standard
- "Reporting – Profit and loss statement form" standard
- "Basic accounting principles" standard
- "Auditing – General principles, remarks concerning auditors" standard.

Upon the foundation of the Union of Chambers of Certified Public Accountants of Turkey (UCCPAT), the Turkish Standards Institute ceased its activities, transferred its secretariat thereto, and, in order to maintain the centralisation of efforts on accounting standards, UCCPAT also agreed in principle to the establishment of the "Accounting Standards Board of Turkey". Works done so

[287] Güvemli, *op.cit*., vol. IV, p. 546.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

far by the Turkish Standards Institute did not take effect and have simply remained as technical research.[288]

6.7 Approval of Act No 3326 on Financial Leasing:

Financial leasing, considered a new financial instrument, is a widely used method in the Western countries.

Financial leasing was implemented through the Financial Leasing Act No 3226 adopted in 1984, and, supported by TVA kept as low as 1%, made a very rapid development in Turkey. Financial leasing model adopted in Turkey requires a minimum contract period of four years, and, contrarily to practices in the West, the concerned Act does not take into account any correlation between the current value of lease payment sums and the market price of a leased asset nor between usage life and leasing period while fixing leasing rates.

As there was no legislation related to financial leasing accounts, financial leasing was subject to same accounting procedures as operating leasing. In order to comply with international standards, legal arrangements concerning financial leasing accounting[289] were implemented in 2003.

6.8 Adoption of the Accountants Association Act:

As explained in depth in the fourth chapter above, attempts to determine legal frames for the profession of accounting date back to the 1930s. There have been six initiatives until the 1980s but none was passed into law.

---

[288] Akdoğan, o*p. cit*., p. 26.
[289] For detailed information on this topic, See: Uman, Y. "Finansal Kiralama ve Muhasebeleştirilmesi" (Ph.D. dissertation, Boğaziçi University, 1988)

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

In 1984, the Ministry of Finance and Customs drafted a bill entitled "Public Accountants, Certified Public Consultants Bill", which was leaving chartered accountants outside the scope thereof. After this, separate proposals were submitted to the National Assembly in order to regularize chartered accountancy, as well. These bills and proposals were discussed at parliamentary committees but remained without result. Meanwhile, two provisional articles were appended to the Tax Procedure Act through Act No 3239 (Provisional Articles 14 and 15). This formulation neither was able to resolve the issue. [290] As can be observed, each time it is a question of a rearrangement, the State reflex is to step in to handle the case through fiscal legislation.

Act No 3568 on Public Accountants, Certified Public Accountants and Chartered Accountants was adopted on 1 June 1989 and published in the Official Gazette No 20194 on 13 June 1989. Accountancy profession was thus provided with legal status exactly forty seven years after first initiatives. Before proceeding with examining said law that concerns closely the accountancy profession and accounting practices, it is necessary to focus on the reasons of this great delay. Mehmet Yazıcı, who made a research on this matter, summarizes the reasons thereof under nine headings:

1) Members of the profession were few in number, with insufficient know-how and experience,
2) The profession was not supported by the concerned ministry or professional institutions (such as chambers of commerce and industry),

[290] Güvemli, *op.cit*., vol. IV, p. 675.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

3) The profession was handled mainly from fiscal viewpoint, people specialized in fiscal matters were conceded privileges, and other professional groups reacted to legislative proposals,

4) The object of the profession was not well explained at courts, was confused with advocacy, and received reactions from lawyers and parliamentary members originally lawyers,

5) Existing members of the profession did not efficiently collaborate in supporting legal arrangements,

6) Persons outside the profession also sought claims on the profession,

7) Related legislative proposals were not applicable,

8) The necessity and the importance of the profession was not well explained neither to concerned authorities nor to the public,

9) Legal arrangements concerning the profession were obstructed by certain political circles (representatives of commerce and industry). [291]

Oktay Güvemli agrees with most of these viewpoints but finds one more point to add thereto. According to Güvemli:

> at the depths of the history of accounting, there lies the issue that from the end of the 19th and the beginning of the 20th centuries onward, taxes have been levied on the basis of income and profit, motivating tax collecting institutions to determine the formal structure of accounting. Prof. Yazar seems to have left aside this point of fact. In Western countries, however, the development of enterprises and the need for accounting appeared towards the middle of the 19th century, and state organisms and ministries concerned with commerce and industry were already looking into the matter. It was not a coincidence that the Ministry of Commerce made the first attempts in Turkey to regulate the profession of accounting. A widespread implementation of tax levying over income and profit after the 1949 tax reform, as well as legislation adopted thereon, brought the preparation of balance sheets and income statements in the foreground, and the Ministry of Finance was

[291] Güvemli, *op.cit*., vol. IV, p. 676-9.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

inevitably led to become the unique institution to show concern for the matter.[292]

In our opinion, the creation of a professional institution and its acceptance by the public require that the level of economical development, social and cultural structure, and the number and qualifications of those engaged in that particular profession reach a certain degree in the society wherein said institution is to perform activities. Since the accounting profession in Turkey attained such circumstances only towards late 1980s, it was only then that accounting could be provided with legal frames, making from then onwards a rapid development in parallel with existing conditions.

Legal arrangements of the accounting profession were made "in 1870 in England, in 1881 in France, in 1886 in the United States, in 1895 in Holland, in 1899 in Germany, in 1941 in Switzerland, in 1945 in Argentina, in 1946 in Brazil and Mexico, in 1950 in Greece, and in 1955 in Nigeria."[293] According to the general legal arguments on Act No 3568, the fundamental functions of financial consultants in Turkey are:

- "To ascertain that the balance sheet of an enterprise has been drawn up in a manner reflecting a true and fair information about the enterprise and is in conformity with methods of accounting,
- To ascertain that the profit and loss statement reflects truly and fairly the income and expenses of a given period by verifying that said statement has been drawn up as per the items entered into related accounting books.[294]

[292] Güvemli, *op.cit*., vol. IV, p. 679.
[293] General argument on Act No 3568
[294] General argument on Act No 3568

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Turkish accounting practices in Turkey in the late 1980s are described as follows in the general legal argument:

> Accounting practices in Turkey lack uniformity. These practices are a long way off from supplying necessary information to managers in taking appropriate decisions. Balance sheets and profit and loss statements drawn up under these practices are not only deficient in providing information to use in the realisation of economic aims but are also incapable of furnishing reliable and comprehensible information to concerned managers in their internal analysis…Because of today's accounting terminology and the lack of uniformity, balance sheets and profit and loss statements are playing an obscuring and confusing role rather than a clarifying and explicative role.[295]

It is impossible to disagree with these remarks. The point which merits attention in this legal argument is that the legislator did not mention taxes while speaking about accounting and described accounting as an information system oriented exclusively to administration.

Moreover, it is clearly specified in the Act that financial accountants will engage in activities same as fiscal controllers. That is to say:

> In Turkey, the number of annual tax returns for income tax is 2 113 221 and for Corporation Tax 75 220, both categories being at the same time subject to value added tax. Yet, the number of employees charged with tax controlling is about 2330. An efficient inspection and verification of over millions of tax returns is practically impossible to execute by the number of public officials assigned thereto…Through this Act, the establishment of public accountants and certified public accountants and chartered accountants, similar to those in the Western countries, is implemented in Turkey in order to relieve the Ministry of Finance from the heavy burden of tax controlling, to prevent the Turkish tax system from degenerating, to ensure the development of reliability and ethics in taxation and administration, and to bring disputes arising out of the implementation of fiscal acts down to a minimum level.[296]

Act No 3568 adopts three major functions for the three professional categories:

- Keeping accounting records (Public Accountant - PA)
- Accounting and tax control (Certified Public Accountant - CPA)

[295] General argument on Act No 3568
[296] General argument on Act No 3568

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Financial statement and declaration Certification (Chartered Accountant - CA)

Act No 3568 also adopts the principle that a category is permitted to perform the tasks of lower categories. For example, a Certified Public Accountant may also keep accounting records in addition to the duties of a controller. Similarly, a Chartered Accountant is permitted to proceed to controlling in addition to certification business.

The three groups (PA, CPA, and CA) established their own professional chambers in cities and large towns. In 1990, these professional chambers came together to create an organisational structure under the name of "Union of Chambers of Public Accountants, Certified Public Accountants, and Chartered Accountants of Turkey" (TÜRMOB). Said Union became member of International Accounting Standards Committee (IASC) in 1994. It also counts among the founder members of the Federation of Mediterranean Accountants (FCM) set up in October 1999.

In our country, there were 29 722 public accountants, 30 957 certified public accountants, and 3 474 chartered accountants as of year 2007. [297]

According to Güvemli,

> the profession developed over the duality of accounting and taxing. The PA group is constituted of accountants, whereas the CPA and CA's are accountants and tax men. Since the Ministry of Finance directs all applications, taxing has all along been held in the foreground. The Capital Markets Board, the banking sector, and the Undersecretariat of Treasury have never been allowed to become direct employers. Chambers of commerce and industry, the Association of Banks, and judicial authorities may communicate with these institutions only to the extent permitted by the Ministry's orientation.[298]

[297] TÜRMOB. *Statistics Yearbook*. Istanbul: 2007.
[298] Güvemli, *op.cit*., vol. IV, p. 684-5.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Güvemli's observations reflect today's evolution. Accounting, instead of developing on the basis of its own principles, is still manifesting activities in line with fiscal procedures.

Lately, TÜRMOB has been heading the list of institutions that influence the Turkish accounting practices. TÜRMOB made considerable efforts for the development of accounting profession and the establishment of auditing profession.

The Accounting and Auditing Standards Board of Turkey (TMUDESK) was established in Turkey on 9 February 1994 under the leadership of TÜRMOB. The foundation object of TMUDESK is: "to write out and publish national auditing standards which will enable the development and adoption of national accounting principles so as to ensure the auditing of appropriate, true, reliable, stable, comparable and comprehensive financial statements, said national auditing standards serving public interest and maintaining discipline for accounting professionals in their auditing activities."[299]

TMUDESK set out the following principles in determining the Turkish accounting standards (TMS):[300]

- Accounting standards shall be in conformity with international accounting standards,
- The structure and requirements of the Turkish economy and enterprises shall be taken into consideration.

TMUDESK started an intense work under the guideline of these principles. During its activities, said Board employed international methods of developing

[299] The Accounting and Auditing Standards Board of Turkey. *Directives*. Ankara, 1994.
[300] Akdoğan, *op. cit*., p. 28.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

generally accepted standards and has already issued a total of nineteen accounting standards; eleven in 1996, four in 2000, and four in 2001.[301]

According to O. Güvemli, "although the purpose of TMUDESK was to benefit from and harmonize with international accounting standards in view of globalisation, the Turkish accounting standards turned out to be a translation and adaptation of international standards."[302] But the Ministry of Finance, arguing through the Accounting Practices General Communication No 4 that ministerial standards for accounting were not yet drawn up, stated expressly that standards prepared by TMUDESK had no executive power. That is to say, as TMUDESK is not equipped with any means of applying sanctions, standards so prepared are not obligatory and remain just directive. This fact demonstrates how in Turkey, even on the threshold of a new millennium, accounting practices cannot be oriented by professional organisations but through tax legislation.

The task of determining Turkish accounting standards was assigned to the Accounting Standards Board of Turkey through an act in 1999. Upon this development of events, TMUDESK ceased its activities in the field and transferred its studies to the Turkish Accounting Standards Board of Turkey in 2001. The Accounting Standards Board of Turkey will be amply discussed later on.

[301] Akdoğan, *op. cit*., p. 28.
[302] [302] O. Güvemli, Volume IV., Op. Cit., p. 589

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

6.9 Efforts to Form Accounting Profession Associations and Foundations:

6.9.1 Expert Accountants' Association of Turkey (TMUD):

As already mentioned above, the first expert accountants' association was founded in Turkey in 1942. This association is still active and represents Turkey at the International Federation of Accountants (IFAC). In cooperation with certain universities, the Association held accounting congresses between the years 1958 and 1967. It published the "Accounting Review", of which the first issue appeared on 10 September 1958, up to 1968. The Association is currently continuing activities.

6.9.2 Accounting Academicians' Collaboration Foundation (MÖDAV):

This Foundation was established by seventeen accounting academicians on 12 November 1995. The number of members at present exceeds four hundred. The fundamental object of the Foundation is: "to support the academic development of accounting, the collaboration between accounting academicians, and the cultural, scientific and social evolution of the Turkish society; to enable the education of accounting attain a more efficient and vigorous level; and to contribute to the development of the accounting profession*" (*MÖDAV Foundation Voucher, Article 4*)*

The Foundation published an academic review entitled "the Bulletin", appearing quarterly, between January 1996 and April 1998. Said review was later

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

renamed as “Review of the Academic Accounting World” and is still being published quarterly.

6.9.3 Association of Accounting and Finance Academicians (MUFAD):

The objective of this association, which was set up by accounting and finance academicians and which started activities on 10 November 1998, is to contribute to the:

> academic development of accounting and business finance, collaboration between accounting and financing academicians; encouragement of academic studies and research in the fields of accounting and business finance, accomplishment of efficient and vigorous educational services; and development of the profession (MUFAD Statute, Article: 2).

The Association has been publishing a quarterly review entitled “MUFAD Review of Accounting and Financing” since January 1999. The Association is still continuing its activities and the publication of said review.

The foregoing two institutions have filled an important gap and have been bringing light to accounting practices.

6.10 Application for Full Membership to the European Union and Accounting Regulations in the European Union (Directives):

Turkey applied for full membership to the European Economic Community (EEC) created in 1957 at the same time as Greece in 1959. Ensuing negotiations led to the signature of the Treaty of Ankara in 1963 between the two parties. The EEC carried on membership relations with Turkey through periodical protocols. In 1972, a transition period of twenty two years was envisaged for Turkey. In 1974,

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

disputes during the signature of the Fourth Additional Protocol resulted in the suspension of negotiations with the European Economic Community. Enlargement principle has been on the agenda of the European Economic Community from the very start onwards. After its foundation, England, Spain, Portugal, Greece, Austria, Ireland, Iceland, and Norway respectively joined the European Economic Community at various periods. In 2004, the number of members rose to twenty five by the joining of ten more European countries. EEC changed name first to European Community (EC) and then to European Union (EU). The Community has been making a progress from economical union towards political integration ever since inception.

In the face of these developments, the government of Özal applied in 1987 for full membership to the European Union. Turkey had agreed in 1972, although not a full member, to fully join the customs union in the following twenty-wo year time. After this application, negotiations with the European Union were at first carried out within the frame of a customs union. In 1995 Turkey became the unique country joining the customs union without becoming a full member.

In 1989 in Europe, the dissolution of the Soviet Union and the fall of the Berlin Wall resulted in the breaking out from the Russian influence zone of the Baltic countries (Latvia, Estonia, Lithuania), of Poland, of East European countries (Ukraine, Moldova, Belarus), of the Central European countries (Czechoslovakia and Hungary) and of Balkan countries (some ex-Yugoslavia republics, Romania, Bulgaria); and the European Union decided to give priority to the participation of these countries. Negotiations with Turkey could therefore not progress at an anticipated level because in the meantime some other countries, more prepared and

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

more readily accepted, joined the Union. Finally, full membership negotiations with Turkey started in 2004.

At the same time as the European Union was getting ahead with the policy of political and economic integration, a rapid integration produced in the financial markets of the Union, with corporate mergers and foreign investments increasing progressively. These developments in economical and political fields soon influenced accounting practices. Regulations called the "European Union Directives" can be qualified as the "avant-garde implementation of globalisation in accounting practices anticipated in the 21st century. "[303] Among these directives, the ones bearing number 3, 4, 6, 7 and 8 are related to accounting practices.

The Third Directive of the European Union relates to corporate mergers and was published on 20 October 1978. This directive deals with the "merger of public limited liability companies." The directive handles a merger by session separately from an acquisition that results in a new company, and describes how to proceed in each case.

Amended Article 16 of the Securities Exchange Act No 2499, modified through Act No 3794 on 23 April 1992, finds expression as follows. "The Board may require an independent audit report related to liquidations, cessions, activity changes of public limited liability companies and capital markets institutions entering into the scope of this Act; may also require arrangements in order to protect the rights of small shares and to inform the public."[304]

The Fourth Directive of the European Union was published on 25 July 1978. This directive concerns the preparation and publication of financial statements. The directive applied to Germany, Belgium, Denmark, France, Ireland, Italy,

[303] Güvemli, *op. cit.*, p. 440.
[304] Ibid., p. 442.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Luxembourg, Holland, and England, whereas a two-year adaptation period was accorded for other countries. The directive is incumbent on all member countries. The second article of the directive comprises general clauses related to the drawing up of balance sheets and income statements.

Said directive treats one by one balance sheets in section three, the structure of income statements in section five, valuation principles in section seven, scope of footnotes and annexes of financial statements in section eight, extent of annual activity reports in section nine, annual financial statements and publication thereof in section ten. Auditing also is regulated in detail in the 51st article of the directive.[305]

Uniformity of balance sheets and income statements drawn up in Europe was achieved through the fourth directive of the European Union published in 1978.[306]

The Sixth Directive of the European Union was adopted on 17 December 1982 and published in the European Official Gazette on 31 December 1982. This directive lays down the rules of the division of public limited liability companies. Incumbent on the European Union member states, the directive comprises 27 articles and has been in force since 1 January 1986.

The first section of the directive treats divisions by acquisitions and the second section divisions by the formation of new companies; the directive also attaches particular importance to judicial auditing during division processes.

In our country, divisions have not yet been legally regulated. There have been some attempts to provide for this lack by way of amendments in fiscal legislation.[307]

[305] Güvemli, *op. cit.*, vol. IV, p. 444.
[306] Akdoğan. op. cit., p. 10.
[307] Güvemli, *op. cit.*, vol. IV, p. 444 -448

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The Seventh Directive of the European Union relates to consolidated financial statements. The seventh directive was adopted on 13 July 1983, and member states were allowed time up to 1 January 1988 to synchronize their legislations; the directive became compulsory from 1 January 1990.

The first section of this directive, comprising five sections, elaborates the necessary conditions for drawing up consolidated financial statements, and the second section lays stress on the methods of preparation of these statements. The third section treats consolidated activity reports, the fourth section auditing of consolidated financial statements, and the fifth section public disclosure of said statements.[308]

"There is not any provision in the Turkish Commercial Code or in the fiscal legislation regarding consolidated financial statements of an enterprise in view of meeting the requirements of shareholders and concerned third parties. However, a clause in the amended Article 16 of the Securities Exchange Act No 2499, modified through Act No 3794, introduces into Turkish accounting practices the obligation of setting up consolidated financial statements for companies subject to the Securities Exchange Act. It also prescribes that "independent auditing firms will be called upon for verifying that information supplied reflects the situation truly and fairly and for drawing up a report thereon."

"Communication Serial XI No 7 Concerning Principles and Rules on Consolidated Financial Statements in Capital Markets" published by the Capital Markets Board on 13 December 1987 was influenced by the seventh directive of the European Union.

[308] For further information, see: Güvemli, *op. cit.*, vol IV, p. 448-50.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The Eighth Directive of the European Union relates to the auditing of financial statements. Said directive, which was adopted on 10 April 1984, required that member states take all necessary legal measures and prescribed that the effective date thereof would be 1 January 1990.

"The Eighth Directive of the European Union has proved to be essential from the viewpoint of globalisation of auditing principles in accounting."[309]

6.11 International Developments and Regulations Related to Accounting Practices:

The rapid globalisation of the world economy, technological evolution, electronic commerce, and the management and efficient utilisation of information led locally-active companies to open to other countries and find new investment fields. In the light of these developments, financial information gained importance, and the comparativeness and reliability of information figuring on financial statements have been questioned. Different reporting standards and accounting policies restrict comparativeness and comprehensibility thereof by all users. This is why each state requires companies treating capital markets transactions to prepare financial statements in compliance with its own accounting standards, bringing extra work to companies. [310]

There have been efforts to prepare international accounting standards in order to overcome this inconvenience and to maintain coordination in international accounting practices. Activities on this matter started with the establishment of the

[309] Güvemli, *op. cit.*, vol IV, p..455
[310] Akdoğan, *op. cit.*, p. 10-1.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

International Accounting Standards Committee (IASC) in.[311] The activities of the committee intensified from 1990 onwards.

There exist five institutions which play a role in the determination of international accounting standards.[312]

a. International Accounting Standards Board (IASB),

b. European Union Commission (EUC),

c. International Organisation of Securities Commission (IOSCO),

d. Intergovernmental Working Group of the United Nations constituted by specialists on International Standards of Accounting and Reporting (ISAR),

e. Working Group of the Organisation for Economic Cooperation and Development on this topic (OECD Working Group).

The determination of international accounting standards is as essential as the accomplishment thereof is laborious.[313] The reason for this situation is that there are four major accounting systems influencing accounting practices in the world. These systems are:[314]

- The English, American and Dutch system,
- The Continental European system,
- The South American system,
- The system employed by socialist states.

[311] This Committee will later be renamed as the International Accounting Standards Board (IASB).
[312] Choi, F. and Meek,G. International Accounting. 5th ed. Prentice Hall, 2005.
[313] Akdoğan, *op. cit*., p. 15.
[314] Wild, J., Bernstein, L., and Subramanya, K.R. *Financial Statement Analysis*. McGraw Hill, 2001.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Accounting and reporting practices generally favoured are the Generally Accepted Accounting Principles in the United States (US GGAP) or the International Financial Reporting Standards (IFRS).[315] However, differences between the US GAAP and the IFRS have lately been discommoding investors, and activities have been accelerated in view of adopting standards acceptable to the entire world.

The states of the European Union have started up a "Financial Action Plan" within the scope of the Union so as to enable publicly traded companies to engage in operations in the capital markets exterior to the Union, and said plan necessitates adjustments of the accounting practices in line with financial information system. Within this frame, the European Union Commission published: [316]

- The report entitled "Accounting Harmonization: New Strategy Vis-à-vis International Harmonization" on 14 November 1995, and
- The report entitled "EU Financial Reporting Strategy: The Way Forward" on 13 June 2000.[317]

Both reports lay emphasis on the necessity of constituting accounting standards in the European Union.

- Regulation (EC) No 1606/2002 of the European Parliament adopted on 19 July 2002 is prescribing the principles of application of international accounting standards in member states. According to this regulation, all publicly traded companies in European Union member states are obliged from 1 January 2005 onwards to prepare consolidated financial statements on the basis of IAS and IFRS

[315] Akdoğan, *op. cit.*, p. 15.
[316] Ibid, p. 11.
[317] Akdoğan, N. "Transition to international standards in financial reporting practices in the European Union member states – Efforts to approach the IAS of the accounting standards set forth by of the fourth and seventh directives of the European Union." SBF Publications no: 590, TÜRMOB publication No. 221 Ankara, 2003: 33.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

published by the IASB, related comments (SIC-IFRIC) thereto, and amendments and adjustments concerning these standards.[318]

An important step was taken on 18 September 2002 through the Norwalk Treaty between the FASB and the IASB in view of countering the differences between the US GAAP and the IFRS.[319]

Cooperative works are going on between the IASB and the FASB. The objective of these works is to eliminate the differences between the IFRS and the US GAAP. The best solution is not an exclusive adoption of the US GAAP, but a modification of the American standards by way of accepting IFRS in certain cases. As a matter of fact, it is observed that drafts have already been drawn up to change some US GAAP standards.[320]

The International Organization of Security Exchange Commission (IOSCO)[321] has criticised fourteen of the existing international accounting standards. These critics have been agreed upon by other institutions preparing national accounting standards.

Pursuant to these critics, the IASB started reviewing the concerned standards and entered into activities for the constitution of a high-quality and applicable global set of accounting standards which will be acceptable to all.

There is also the problem raised by small and medium-sized companies regarding the scale of application of international accounting standards and the

---

[318] Akdoğan, "Transition to international standards in financial reporting practices in the European Union member states – Efforts to approach the IAS of the accounting standards set forth by of the fourth and seventh directives of the European Union.", p. 16.
[319] Ibid., p. 16
[320] Ibid., p. 18
[321] "As is known, IOSCO permits foreign companies trading in the markets of the United States to employ the IFRS's instead of the US GAAP's. However, there is a timetable for the application thereof until 2010, and it is necessary for IFRS approach to US GAAP, to publish consistent interpretations, and to attain high-quality of the standards." Ibid., p. 18.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

content of the financial statements. There is already a project at IASB in order to determine standards for small and medium-sized companies.[322]

All of the foregoing developments have closely influenced the Turkish accounting practices; and, although a candidate member to the European Union, Turkey is committed to implementing the IFRS published by IASB from 2005 onwards. This matter will be discussed later in more detail.

6.12 Adoption of the Uniform Accounting System:

The most important institution that orients accounting practices in Turkey is certainly the Ministry of Finance. Article 175 of the Tax Procedure Act conferred limited power to the Ministry of Finance. In fact, this article prescribed that "taxpayers may [...] dispose books and accounts in the way and in the form at their discretion in accordance with the nature of their business."

Article 257-bis was, however, added to the Tax Procedure Act through Act No 3239 adopted on 4 December 1985. According to this,

> the Ministry of Finance and Customs is entitled to fix the procedures and principles of accounting for all taxpayers and business groups; to abolish the obligation of keeping books and drawing up documents enforced by this Act; to determine the nature, form, and content of additional books to keep and extra documents to draw up besides the habitual ones so as to prevent tax loss and tax evasion and to make amendments thereon; to implement or to abolish the obligation of certification, conservation, and presentation thereof; to publish and circulate or to have third persons publish and circulate these books and documents against payment; to keep these records; to enforce or abolish the obligation of using cash registers or using and displaying signboards in order to prevent tax loss, encourage tax compliance, and implement tax laws (TPA, Article 257-bis.)

[322] Akdoğan, "Transition to international standards in financial reporting practices in the European Union member states – Efforts to approach the IAS of the accounting standards set forth by of the fourth and seventh directives of the European Union.", p. 18-19.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

This article delegated such power to the Ministry of Finance that the ministry became unquestioningly the only competent authority in orienting accounting practices. Same view is expressed by Nalan Akdoğan as follows:

> Regulations set out by the Ministry of Finance have greatly influenced the formation of accounting practices in Turkey. The Tax Procedure Act, the Income Tax Act, the Corporate Tax Act, and various communications issued consequent to these acts have been directing accounting practices. For long years, accounts and financial statements have been drawn up in Turkey for tax purposes, neglecting the principle of informing the public.[323]

As explained at the beginning of this chapter, the political, economical, and financial developments, as well as the legislative and fiscal adjustments that took place in Turkey between the years 1980 and 1990 forced the Ministry of Finance to adopt a new approach. Consequently, a commission was formed in 1990 with the participation of representatives from various sectors (universities, capital markets, state economic enterprises, TÜRMOB, etc.) under the leadership of the Ministry of Finance. The purpose of this commission was to put an end to the chaos in the field of accounting standards in Turkey and to set out the principles of uniform accounting practices with binding effect on all sectors.[324]

Act No 3762 was adopted in 1991 in order to prepare the legislative ground for these attempts. The first article of the Act appended the following clause to Article 175:

> The Ministry of Finance and Customs is authorized to establish procedures and principles concerning the determination of accounting standards, the uniform chart of accounts and financial statements; to enforce the application thereof to taxpayers, companies, and business sectors, and to determine all other related procedures and principles.

The commission completed its task in 1992. By virtue of Article 175 and Article 257-bis of the TPA, the Ministry of Finance issued in the Official Gazette No 21477-bis dated 26 December 1992 the General Communication on Accounting

[323] Akdoğan, *Financial Statements*, p. 26.
[324] Ibid., p. 26.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

System Practices No 1, which took as basis the works of the commission and strongly marked the Turkish accounting practices. The purpose of the communication, also known as the "Uniform Accounting System", was defined as below:

> The present adjustment has been decided to assist enterprises and businesses owned by real and legal persons keeping records for balance sheets in order to:
> (1) book their operating results in a sound and reliable manner,
> (2) present to concerned persons information reflecting the real situation by maintaining the consistency and comparability of financial statements, and
> *(3)* simplify audits in business enterprises (clause explaining the purpose of the General Communication on Accounting System Practices (MSTUGT) No 1).

The communication also states that the object is:

a) to transmit adequate and correct accounting information to decision-making persons,
b) to enable the comparison of different enterprises as well as different terms of one same enterprise,
c) to ensure that account titles on financial statements bear the same meaning for all sectors,
d) to provide comprehensibility through uniform accounting terms,
e) to develop reliability factor between enterprises and concerned persons" (clause explaining the attributions of the General Communication on Accounting System Practices (MSTUGT) No 1).

Said adjustment aimed to attain uniformity of accounting practices in Turkey and intended to have a single business language for all sectors.

The uniform accounting system comprises five sections. These sections lay out certain adjustments, which are annexed to the communication, on the following topics:

a) Fundamental concepts of accounting,

b) Explanation of accounting policies,

c) Principles of financial statements,

d) Preparation and presentation of financial statements,

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

e) Framework of uniform accounting, chart and functioning of accounts (introductory clause of the General Communication on Accounting System Practices (MSTUGT) No 1).

The context of the uniform accounting system has been designed extensively and:

> comprises real and legal persons who keep books in balance sheet methods. In other words, subject enterprises and businesses are under the obligation of complying with accounting procedures and principles set out by the present communication. The fact that an enterprise or business is owned by public administration or institution, has a different legal status, possesses particular legislation or benefits from tax exemptions and dispensations cannot pose any obstacle to fulfill these obligations. Displaying commercial activities is a sufficient condition for an enterprise or business to be bound by the accounting practices and principles described herein (clause explaining the scope of the General Communication on Accounting System Practices (MSTUGT) No 1).

However, along with the keeping books in balance sheet methods, businesses that are obliged to use a different accounting technique due to their field of activity, such as:

a) banks and insurance companies,[325]

b) special finance institutions,[326]

c) financial leasing companies (including those engaged in factoring and the like),

d) mutual funds, brokerage houses, and investment companies

are not bound with the obligations set up with this communication provided that they comply with the fundamental concepts of accounting, disclosure of accounting

[325] Traditionally, banks and insurance companies are enterprises which employ a specific chart of ac counts.

[326] When the Motherland Party came to power in 1983, a special legislation was adopted for these institutions (like Al Baraka Türk) in view of attracting Arab investments, and these institutions, also known as "interest-free banks", were named as special finance institutions. In 2005, these institutions were included into the scope of the banking code.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

policies, and the principles of financial statements" (clause explaining the scope of the General Communication on Accounting System Practices (MSTUGT) No 1).

Although the uniform accounting system has been influenced by the US GAAP and the directives of the European Union, in reality, it is the uniform accounting system practiced at the state economic enterprises over the past twenty years that constitutes the basis of today's uniform system.

While agreeing upon these applications, the Ministry of Finance conserved fiscal legislation unchanged. This point is expressly stated in the communication as follows:

> Enterprises entering into the scope of this adjustment shall carry out their accounting systems in conformity with the principles envisaged by the present communication and annexes thereon. However, they are obliged to consider the special provisions of tax acts while ascertaining taxable profit. In other words, concepts and principles defined herein, as well as the uniformity of preparing and submitting financial statements are unchangeable; based upon said statements, companies will make necessary adjustments and calculations so as to present all information required by tax legislation in order to ascertain taxable net profit (clause explaining relations with tax legislation and sanctions of the General Communication on Accounting System Practices (MSTUGT) No 1).

This communication implemented a correct method through the adjustment that we have underlined above. Yet, the General Communication on Accounting System Practices (MSUGT) No 6 introduced another adjustment as follows:

> Accounting Procedures and Principles [...] implemented through the General Communication on Accounting System Practices No I have been prepared totally detached from tax legislation and application and without keeping in the foreground any concern for tax income. Consequently, General Communications on Accounting System Practices contain adjustments that present discrepancies as compared with tax legislation.

Foregoing adjustment made through communication No IV is very appropriate. The communication even quotes examples on the matter:

> To illustrate contradictions, we can mention the following cases among others: Tax legislation leaves rediscount of receivable and payable notes to taxpayer's discretion, whereas it is imperative according to the General

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

> Communication on Accounting System Practices No I; although tax legislation does not envisage provisioning for severance pay, the communication obliges the use of severance pay reserve account. Likewise, although tax legislation treats post-dated received or given checks as ordinary checks, the Accounting System considers them like receivable or payable notes as per the "principle of realization" and subjects them to rediscount.

Based upon these cases, the General Communication on Accounting System Practices (MSUGT) No IV made the following adjustment:

> Therefore, adjustments introduced through the General Communications on Accounting System Practices do not arrange or change any matter regarding tax legislation and practices. The target of these adjustments is only to explain the functioning of the accounting system. Taxpayers are requested to pay special attention [...] to this matter (General Communication on Accounting System Practices (MSUGT) No IV.)

Communication No IV refers to Communication No I: "Differences between profit or loss for a given period (business profit), which is indicated on financial statements drawn up in conformity with accounting procedures and principles, and profit or loss that constitutes assessment to tax (financial profit) shall in no way be revised over balance sheets or income statements; taxable profit shall be calculated by taxpayers separately from financial statements" (General Communication on Accounting System Practices (MSUGT) No IV.) In order to simplify this adjustment and calculation, the "Information Notice to Taxpayers, who Keep Books in Balance Sheet Methods, on How to Attain Financial Profit out of Business Profit" (See Appendix 5 xx) was prepared and dispatched to taxpayers in 1995.

The Ministry of Finance obliged the application of accounting in accordance with the General Communications on Accounting System Practices, but also stipulated a very detailed bookkeeping to enable transition from business profit to financial profit. As is known, there are important discrepancies between the tax legislation and the General Communications on Accounting System Practices. The Tax Procedure Act also remains inadequate or incomplete beside the International Accounting Standards. The Ministry of Finance is sensible to this issue. The General

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Communication on Accounting System Practices (MSUGT) No IV describes the matter as follows:

> "For areas which are not covered by the General Communication on Accounting System Practices No 1, and in conformity with accounting standards to be issued later on, or in conformity with general accounting concepts if there are no standards issued, enterprises shall first adhere to principles commonly adopted by similar-sized enterprises of the same sector, and if this is not applicable, shall then adhere to the principles adopted by international standards" (General Communication on Accounting System Practices (MSUGT) No IV).
>
> "The Ministry of Finance has been observing international standards and has already inserted into the Tax Procedure Act modifications such as those concerning inflation adjustment, accounting of financial leasing operations, and the like. Therefore, other international standards are not valid from the viewpoint of tax legislation."

Yet, the Tax Procedure Act and contemporary accounting developments do not accord with one another. To give an example, according to Article 171 of the TPA, the purpose of bookkeeping is stated as follows:

1. "to assess through taxation the taxpayer's wealth, capital, and position of accounts;
2. to assess through taxation the results of concerned activities and accounts;
3. to evince procedures related to taxation;
4. to verify and examine through accounts the taxpayer's position vis-à-vis taxes;
5. to verify and examine with the help of a taxpayer's accounts the position of third persons vis-à-vis taxes."

Yet, the General Communication on Accounting System Practices No I, granted with equal binding effect, describes the purpose of accounting, therefore bookkeeping, as: "to keep sound and reliable records of the activities and results of enterprises and businesses owned by real and legal persons; to maintain the

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

consistency and comparability of information on financial statements presented to concerned persons, providing them with a true reflection of the position; and to simplify audits at enterprises."

Several similar examples can be cited. As is known, the section of the Tax Procedure Act from Article 171 up to Article 331 is about accounting and looks "more or less like an accounting manual." With this nature, the Tax Procedure Act reflects the philosophy of the 1940s. Said adjustment, which was valid and necessary for that period, today constitutes an obstacle in many points. As a matter of fact, Güvemli remarks: "There are many articles of the Tax Procedure Act which are impossible to accept from the viewpoints of contemporary developments, contemporary conception of accounting, modern Turkish, as well as the General Communications on Accounting System Practices. Some of these articles are enumerated below:[327]

Article 182 – 186 Books kept in balance sheet methods

Article 188 – 189 Inventory lists and depreciation records in balance sheets

Article 192 Balance sheets

Article 193 – 196 Business books and registers

Article 197 – 199 Production books

Article 210 - 211 Professional income books

Article 262 – 268 Valuation units

Article 269 – 272 Real estate valuation

Article 275 Valuation of produced merchandise (cost)

Article 313 – 321 Depreciations

[327] Güvemli, *op. cit*., vol IV, p. 186.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Article 322 – 324 Insignificant, doubtful, and desisted receivables

Article 326 Goodwill

It is possible to continue the list and extend it, including articles other than those related to accounting.

The primary reason of this situation is that the Tax Procedure Act is totally oriented towards taxation. It is simply impossible to attain the fundamental objectives of accounting when practiced this way. Turkish fiscal legislation influencing Turkish accounting practices have therefore led up to the fact that accounts and financial statements drawn up in Turkey are tax-purposed and disregard the functions of management assistance and public information.[328]

The General Communication on Accounting System Practices No 1 was published on 26 December 1992 but came into effect as of 1 January 1994. This was expressly stated in the communication: "Taxpayers falling within the scope of the present communication are obliged to conform to the accounting procedures and principles defined herein starting from the 1994 fiscal period onwards. Taxpayers may, at their own discretion, observe these procedures and principles for the accounts of the 1993 fiscal period" (articles on the enforcement of the General Communication on Accounting System Practices No 1).

Concerning the uniform accounting system, a total number of fourteen general communications on practices and one circular on the application thereof have been issued by 2008. The uniform accounting system constitutes a unified whole with these fourteen communications and said circular.

The uniform accounting system comprises five chapters.

[328] Akdoğan, *Financial Statements*, p. 26.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The first chapter is entitled *the fundamental concepts of accounting.* Twelve accounting concepts[329] are defined in this section.

The second chapter is allocated to *the explanation of accounting policies*. This chapter discloses situations wherein an accounting policy may require an explanatory note. For example, "financial statements which are drawn up in conformity with continuity, consistency, and matching concepts do not necessitate further explanation." Other situations requiring explanatory notes are stated one by one.

The third chapter is entitled *the principles of financial statements*. The chapter enumerates seven types of financial statements[330] to draw up; out of these, "balance sheets and income statements, including footnotes and annexes thereon, are regarded as basic financial statements and the rest as supplementary financial statements." Admitting the impossibility for all enterprises to prepare every one of the seven financial statements, the uniform accounting system has introduced the following adjustment: "enterprises, which keep records for balance sheets and of which the previous year asset size remains under 25 billion or net sales total less than 50 billion, are to comply with the part concerning basic financial statements."[331]

[329] These twelve fundamental concepts are: 1.Social responsibility, 2.Entity, 3.Business continuity, 4.Matching, 5.Money measurement, 6.Cost, 7.Objectivity and documentation, 8.Consistency, 9.Full disclosure, 10.Prudence, 11.Materiality, and 12.Realisation.

[330] Financial statements according to the Uniform Accounting System are 1.Balance sheet, 2. Income statement, 3.Sales cost sheet, 4. Funds flow table, 5.Cash flow table, 6.Profit distribution table, and 7. Statement of Retained Earnings.

[331] Due to rapid inflation, these limits were augmented every year; i.e. in 2000, they were brought up to 1,8 trillion and 4 trillion respectively. General Communication on Accounting System Practices No 10 prescribes that these limits shall be increased at revaluation rate. Said limits for 2008 are 8 522 520 YTL and 18 937 979 YTL.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

This chapter explains the purpose of financial statements, the particularities of information provided thereon, and the principles[332] to consider in drawing up basic financial statements.

The fourth chapter is entitled *the preparation and presentation of financial statements*. The first entry discussed is the balance sheet from the basic financial statements group. A definition of a balance sheet is given, preparation principles thereof enumerated, formal structure explained, composition of balance sheet footnotes[333] separately specified, followed by a summary and a detailed sample balance sheet (See: Annex Table 5.xxx).

Income statement is discussed next; a definition of the statement is provided and the principles of preparation and formal structure explained. Entries composing an income statement are listed, income statement footnotes described in detail,[334], a summary and a detailed income statement layout provided (See: Annex Table 5.xxx).

The rest of the chapter handles other financial statements (funds flow table[335], profit distribution table, and statement of retained earnings), providing the definition of each statement and the purpose thereof, as well as the principles to consider while drawing up, followed by sample layouts (See: Annex Table 5.xxx).

The fifth chapter is entitled *the uniform accounting framework, chart of accounts, and remarks on chart of accounts*." This is the longest chapter of the communication. The uniform accounting framework comprises 9 *classes of*

[332] Principles of preparing basic financial statements divide into two major groups: 1. Principles for income statements, 2. Principles for balance sheets. And principles for balance sheets divide into three subgroups: a) principles for assets, b) principles for liabilities, c) principles for equities.
[333] There are 30 footnotes in uniform balance sheets.
[334] There are 13 footnotes in uniform income statements
[335] Funds flow statements in the uniform accounting system comprise the statements of fund flow, cash flow, and earnings over net circulating (working) capital.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

account[336]or *major groups*. The uniform chart of accounts is in decimal system. In this system, the first digit designates the "major group", the first two digits the "account group", and the first three digits the "ledger accounts that constitute the chart of accounts."

There are two methods in the uniform accounting system for cost accounting. The 7/B method is suggested for small and medium-sized enterprises engaged in manufacturing or services as well as for commercial enterprises[337], and the 7/A method for large enterprises engaged in manufacturing or services.

Application of the uniform accounting system is incumbent on all real and legal persons keeping records for balance sheets; in the case when not applied by those concerned or if incompletely applied, then "penal sanctions as required by concerned provisions of the Tax Procedure Act No 213 and the Public Accountants, Certified Public Accountants and Chartered Accountants Act No 3568 shall be put in force" (article on sanctions of the General Communication on Accounting System Practices No 1).

To comprise confusions during application or to respond to new requirements, the uniform accounting system has been replaced by the "General Communications on Accounting System Practices." For instance the General Communication on Accounting System Practices No 2 adjusted the use of account

[336] The classes of account in the uniform accounting system are: 1.Current assets, 2. Fixed assets, 3.Short-term liabilities, 4.Long-term liabilities, 5.Equities, 6.Income statement accounts, 7.Cost accounts, 8.Management accounts, 9.Memorandum accounts.

[337] According to the General Communication on Accounting System Practices No 3, manufacturing and service enterprises of which total assets or net sales exceed 25 billion or 50 billion in respective order are not obliged to use the 7/B system, whereas manufacturing and service enterprises of which total assets or net sales remain below these amounts, as well as all commercial enterprises regardless of the size of their net sales proceeds need not use the 7/A system. Because of high inflation, these amounts have been augmented almost every year, attaining 300 billion for total assets and 600 billion for net sales in 2000. The General Communication on Accounting System Practices No 10 prescribes that said amounts shall be raised at revaluation rate. In 2007, limits stood at 1,325,000 YTL for total assets and at 2,649,900 YTL for total net sales.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

groups and ledger accounts left blank in the chart of accounts. According to this adjustment,

> Titles, code numbers, and ranks of account groups and ledger (final entry) accounts designated in the chart of accounts cannot be changed. Dual-code account groups which have been left blank on the chart of accounts shall be made available by our ministry (the Ministry of Finance and Customs) in line with economic developments and requirements. However, triple-code ledger (final entry) accounts left blank on the chart of accounts are freely employable provided that their utilization conforms to the function and logic of both the major account group and group accounts, that there exists no other account on the chart of accounts with similar features and scope, and that their use does not cripple the integrity nor the consistency of the major account group and group accounts" (General Communication on Accounting System Practices No 2, paragraph A).

After the publication of the communication on uniform accounting system, CMB

> seemed to have accepted said communication of the Ministry of Finance for implementing the chart of accounts. But CMB determined the principles to comply with concerning the form and content of balance sheets and income statements that enterprises draw up. From the viewpoint of form and content, principles are generally similar. However, there are considerable differences between the adjustments of CMB and the communication of the Ministry of Finance, particularly in what concerns accounting concepts, valuation, and certain forms of statements. At the beginning of the twenty-first century, due to standards issued on one hand by CMB and on the other hand by the Ministry of Finance, institutions subject to CMB are obliged to make extra efforts to readjust their statements as per the principles of CMB. This brings on additional charge to accounting, and also causes double controls.[338]

State economic enterprises which have been applying a uniform chart of accounts and preparing uniform financial statements since 1972, complied with the General Communication on Accounting Principles of the Ministry of Finance and Customs issued in 1992 and put into force as of the beginning of 1994, and abandoned their own system from that date onwards.

[338] Güvemli, *op. cit*., vol IV, p. 559.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

6.13 Amendments in Financial Legislation in the Period 1990 - 2007:

6.13.1 Amendments in Income Tax Act in the Period 1990 - 2007:

- Act No 4108 adopted in 1995 abolished the systems of average profit margin and minimum gross proceeds. Therefore, two methods benefiting to the tax controlling system were abandoned.

- A great change was introduced through Income Tax Act No 4369 adopted on 22 July 1998. The definition of "income" was changed and a prescription added to Article 1 of the ITA included "all kinds of earnings and income gained by any means whatsoever."[339] Small-scale retailer dispensation was redefined, small farmer dispensation totally annulled, real estate concession limits raised, application of investment allowances modified, the Council of Ministers delegated the authority to raise the existing 40% investment allowance up to 200% for industrial investments exceeding 250 US dollars, lump sum taxation of commercial earnings abolished and replaced by the principles of ordinary assessment thereof, particular conditions of subordination to ordinary assessment re-determined, taxation in agricultural earnings modified, designating sizes for twenty-five enterprise groups conferred to the Council of Ministers decision, scope of professional classes enlarged, value increase earnings removed from the Act because included into the first article, tax base for other earnings and income recalculated, income collections and annual tax returns restructured, optional collections and tax returns annulled, withholding rates changed, principles of minimum agricultural earnings and minimum agricultural tax

[339] Before the change, it read "other earnings and income". This definition had a very tight scope.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

and living standard abolished[340], advance tax payments modified. In order to put these radical amendments into effect and prevent questioning the accounts of the past, the date of 30 September 1998 was declared "financial year zero."[341]

In spite of all these guarantees, said modifications could not be put into effect; the application of the first article of ITA was first postponed to the end of 2002, and then restored to the original state through Act No 4783, abolishing these modifications altogether as of 1 January 2003.

- Act No 4842 dated 9 April 2003 readjusted investment incentives in commercial and agricultural earnings, abrogated investment allowances completely, brought in modifications concerning returns on stocks and bonds, increased the amounts of disability deductions, rearranged collection-free conditions, re-determined income tax tariffs, changed tax allowances and tax rates for wage earners.

- Act No 5479 adopted on 30 March 2006 amended income tax tariffs and abolished all investment incentives on commercial and agricultural earnings.

6.13.2 Amendments in Corporate Tax Act in the Period 1990 - 2007:

- Act No 4684 dated 20 June 2001 set up a new order for disclosing loss transfers on tax returns and introduced fiscal arrangements for division cases that constitute legal gaps, prescribing new fiscal regulations concerning stock changes, transfers, liquidations, and mergers.

---

[340] Previously, property tax return was abrogated. Since this Act abolished all other fiscal safety measurements, there remained no more legal fiscal safety system.

[341] According to provisional article 47 of the ITA, "there shall be no retrospective investigation or assessment for taxpayers … authenticating that all unrecorded or non-documented cash, deposit certificates, foreign currencies, and similar assets have been deposited minimum for a period of one day at banks established in Turkey by 30/9/1998."

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Frequency of amendments brought into tax acts not only prejudiced the internal integrity of legislations but also raised difficulties in the application. For example, the Corporate Tax Act comprised 48 articles. There have been four repeated and 29 provisional articles appended thereon. Likewise, the income tax act comprised 126 articles. Over the last forty-six years, there have been 11 repeated, 6 addendum, and 70 provisional articles added and 40 articles abolished.

In order to get out of this chaos and to reorganize the major tax acts, a "tax commission" was set up in 2003 with the participation of the Turkish Industrialists' and Businessmen's Association and other trade associations. The case of the Corporate Tax Act No 5422, in force since 1949, was handled first. The commission completed working thereon in 2006. The new Corporate Tax Act was adopted on 13 June 2006 under Act No 5520. This Act comprises 38 articles and provides great clarification on matters that concern covered capital, company mergers and acquisitions.

The tax commission was still engaged in activities to draw up a new income tax bill when the present thesis was presented. The new bill is expected to be completed in 2008.

6.13.3 Amendments in Tax Procedure Act in the Period 1990 - 2007:

Since legislation that directly influences accounting practices in Turkey is the Tax Procedure Act and that throughout this period there have been many changes thereon, these amendments will be discussed in a more detailed manner.

- Act No 4008 which was adopted on 6 July 1994 attributed "a tax identification number to each Turkish nationality real person", and a clause thereon

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

was added into the 8th Article of TPA. Act No 4108 which was adopted on 2 June 1995 amended this article and enforced a tax identification number not only to real persons but also to legal persons. Said amendment continued, "that the Ministry of Finance is delegated the authority to obligate the use of tax identification numbers in keeping records or issuing documents to public bodies and institutions as well as to real and legal persons"[342] (TPA, Article 8.)

Act No 4008 introduced an adjustment that pushed accounting practices completely into the tax system. This Act appended Article 227-bis into the Tax Procedure Act. This adjustment prescribed that said Act:

> "1. brings the obligation of having tax returns to be also signed by public accountants, certified public accountants and chartered accountants authorized as per Act No 3568, and of enforcing the application thereof separately for each tax return type, taxpayer group, and activity field,
> 2. subjugates benefiting from tax legislation precepts such as exemptions, exceptions, revaluations, loss offsetting, and the like to presenting authentication statements issued by chartered accountants in conformity with conditions set out by the Ministry of Finance,
> and determines procedures and principles related to these applications.
> If information supplied on tax returns or authentication statements do not correspond to book records and to original documents, then professionals who have signed or authenticated these statements, as per the foregoing clause, shall be jointly and severally liable together with taxpayers to any tax, sanction or delay interest due as tax loss resulting thereof" (Tax Procedure Act, Article 227-bis.)

Also, an eighth paragraph has been added to Article 30 of the Tax Procedure Act. This paragraph reads:

> "If, as per article 227-bis of the present Act, a tax return and annexes do not bear the signature of a professional accountant authorized by Act No 2568 or if a chartered accountant's authentication report is not presented in due time for matters necessitating certification"

[342] The Ministry of Finance indeed exerted this authority and enforced the use of tax identification number in banking transactions and in purchase and sale of vehicles and real estate. Act No 4358, which was adopted on 2 April 1998, broadened usage of tax identification number and introduced new principles. From 2006-2007 onwards, tax identification number has been substituted with by national identification number.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

then conditions are set to enable arbitrary tax assessment.[343]

Adjustment introduced through this article has placed Turkish accounting practices totally under the authority of Tax Procedure Act and related fiscal legislation. Taxpayers made efforts on one side to adjust themselves to the uniform accounting system and on the other side struggled to completely comply with all prescriptions of the Tax Procedure Act so as to have their tax returns certified. That is why they preferred "non-deductible expenses", "non-deductible income", and memorandum accounts.[344] The practice became widely used because the "full certification system", in particular, laid down through the adjustments of the Ministry of Finance escaped tax controllers' inspections.

This practice remains unchanged as of today. Certified public accountants and chartered accountants are obliged to analyze documents consigned to them first from fiscal legislation viewpoint. Otherwise, they are jointly and severally liable for any probable tax loss thereof. Also, they are remunerated a certain certification fee as per the tariff designated by TÜRMOB. Under these circumstances, compliance with accounting standards is possible only if permitted by the Tax Procedure Act. For instance, inflation adjustment or financial leasing standards became applicable only because accepted by the Tax Procedure Act. This matter will be discussed again later.

One of the major amendments introduced with Act No 4008 is the entry of the "Last in First out" (LIFO) method in Turkish accounting practices from 1 January

[343] As is known, "an arbitrary tax assessment is the designation of a tax base either by an assessment committee in situations when there is a total or partial impossibility of assessing a tax base on the basis of books, records, documents, and legal measures; arbitrary tax assessment may also be calculated over a tax base or part thereof indicated on tax inspection reports drawn up by authorized tax controllers." (TPA, Article 30). Absence of certification is considered as "total or partial impossibility of assessing a tax base on the basis of books, records, documents, and legal measures" (TPA, 2nd clause of Article 30).

[344] For other examples on this matter, see Akdoğan, N., and Sevilengül, O. *Tek Düzen Muhasebe Sistemi Uygulaması Türkiye Muhasebe Standartları ile Uyumlu.* 14th ed. Ankara: Gazi Publishing, 2007. who explain the best the uniform accounting system in Uniform Accounting System.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

1996 onwards. According to a paragraph appended to Article 274 of the Tax Procedure Act, “taxpayers may also determine the cost of goods that they purchase or manufacture by applying the last in first out method. Those who opt for this method are not allowed to desist there from during a period of minimum five years. The Ministry of Finance is entitled the authority to determine application principles of this method.”

The Ministry of Finance exercises such authorities through the publication of general communications and still remains to be the only powerful institution in orienting accounting practices.

Another amendment introduced through Act No 4008 concerns revaluation value increase funds. The amended 7th clause of the Tax Procedure Act reads as follows: “Value increase fund, if transferred in any way whatsoever to an account other than the capital stock or if drawn out of the enterprise, is subject to taxation for the period and is dissociated from the profit of that exercise. Income taxpayers are not allowed to transfer value increase funds to any other account; it shall be considered as asset withdrawn from the enterprise if transferred or added onto the capital stock.”

Act No 4008 considered revaluation value increase fund as income for the period, which brought about the abandon of tax exemptions thereof and blocked therefore the way for income taxpayers to add revaluation value increase funds to their capital stock.

. One other amendment introduced through Act No 4008 concerns partial depreciations and depreciation rates. Partial depreciation is defined in Article 320 of the TPA as follows:

> Depreciation allowance is set aside for an asset in the first accounting period of booking, calculated over the number of remaining months of that period

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

and with month fraction, if any, considered full month. The residual value corresponding to the period for which there is no allocated allowance is offset totally at the end of the redemption period.

Ordinary rate of depreciation has been brought from 25% down to 20%. In declining balance method of depreciation, applicable rate of depreciation may be twice as much as ordinary rate provided that it does not exceed 40%. Also, provisional article 18 appended prescribed that for assets booked before 6 July 1994 "depreciation allowances continue to be allocated as per the prescriptions which were effective at the year in which these assets were booked" (TPA, provisional article 18)

- The following clause was appended to Article 175 of the Tax Procedure Act through Act No 4108 adopted on 2 June 1995: "The Ministry of Finance is authorized to lay down the rules for taxpayers who trace their accounting records through computer accounting programs and for real and legal persons computerizing these programs, to determine the minimum requirements and standards that said programs should contain, and to fix the procedures and principles of application thereof." The Ministry of Finance legally adopted computer programs with this adjustment. Computer printouts were considered "loose-leaf" books subject to notary certification.

Partial depreciation which was adopted by Act No 4008 lived short, and Act No 4108 prescribed that partial depreciation would be applied only for "passenger cars owned by enterprises".

Special irregularities and sanctions for special irregularities were once more amended with Act No 4108, and penalties increased. There is a prescription in this regards that reads as follows: "Those who do not comply with the accounting standards, uniform chart of accounts, and financial statements set out by the present

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Act, as well as those who do not conform to the rules and standards of computer accounting programs will pay a fine of 25 million liras[345] for special irregularity."

Income taxpayers whose commercial earnings are determined by way of straightforward calculation are exempt from bookkeeping as per Act No 4369 adopted on 22 July 1998. Same Act raised limits for inclusion into first-class businessmen and abolished obligations to keep daily cash books, sales and revenue and proceedings books, as well as registers of bills of exchange. Obligation of invoicing and providing retail sales slips was extended, scope of expense notes restricted, and the number of documents required from transportation and hotel enterprises increased.

Act No 4369 augmented still further the powers of the Ministry of Finance stated in Article 257-bis previously delegated through Act No 3239. According to this: "The Ministry of Finance is authorized to determine accounting procedures and principles according to taxpayer and profession groups; to set out the composition, structure, and indispensable information to include into books and documents kept as per the provisions of the present act and into additional books and documents judged necessary; to make amendments thereon; to print and dispatch or to have printed and dispatched by third parties and to hold records of these books and documents; to obligate or abolish the obligation of their certification, conservation, and presentation; to abrogate the compulsion of keeping and drawing up books and documents prescribed by the present act; to authorize or obligate keeping and drawing up books and documents by use of microfilms, microfiches or electronic data recorders and devices, and to authorize or obligate conservation of books and documents in these milieus; to obligate conservation of copies of said books and

[345] This amount is 3.200 YTL in 2008.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

documents at the Ministry of Finance or at institutions assigned for this purpose; to determine the procedures and principles thereof …; to designate notaries, legally established professional institutions or other offices judged appropriate as certifying authorities….; to allow income taxpayers, whose earnings are determined by way of straightforward calculation, to keep a special register; and to lay out all other procedures and principles related to these matters."

As observed, the Ministry of Finance is entitled immense powers in the application of accounting transactions in all kinds of milieus. Since the inspection of the system is entrusted to approximately thirty thousand certified public accountants and chartered accountants, adding signature to tax returns or certifying them, the Ministry still remains the only competent authority in the orientation of accounting practices

Act No 4369 approves the possibility of rediscounting receivable and payable bills denominated in foreign currencies. The amended 2nd clause of Article 280 of TPA reads as follows:

"Foreign currencies gain value as per stock market price… In case of a foreign currency without market price, then the Ministry of Finance determines an applicable rate of exchange… Among receivables and payables with or without bills denominated in foreign currencies, undue receivable and payable bills are applied the transaction date value. If interest rate is not stated on a bill, then the London Inter-Bank Offered Rate (LIBOR) valid for the evaluation date is taken as basis."

- Act No 4731, which was adopted on 28 December 2001, readjusted Article 242-bis of the Tax Procedure Act. The heading of the article was modified as "registers in electronic milieus and drawing up documents with electronic

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

devices"[346]; the concepts of "electronic books", "electronic documents", and "electronic registers" were inserted into the Tax Procedure Act, with definitions thereof appended to the article.

Act No 4731 also provided the possibility to make revaluations for provisional tax periods. A clause is appended to Article 298-bis stipulating that "revaluation rate is assessed starting from the month of November of the preceding year, on the basis of average price increase in the General Index of Wholesale Prices of the State Institute of Statistics on the 3rd, 6th, 9th, and 12th months as compared to those corresponding to the previous 3rd, 6th, 9th, and 12th months," and that "these rates shall be published in the Official Gazette".

- Act No 4842, which was adopted on 9 April 2003, appended Article 290-bis to the Tax Procedure Act. This article is entitled "valuation in financial leasing transactions."

As already mentioned above, financial leasing was implemented in Turkey in 1984. As there were no provisions on how to book financial leasing in the Tax Procedure Act, financial leasing transactions were accounted for ordinary leasing transactions. Yet, there were specific regulations on this matter in both the US GAAP and the IFRS. Absence of this application in the Turkish system was a topic of criticism. Article 175 of the Tax Procedure Act stipulated that the Ministry of Finance is "empowered to establish accounting standards… to determine procedures and principles of these standards… to enforce the application thereof… to set out all other procedures and principles related thereto." Instead of exerting this power by

[346] Before the amendment, the heading of this article was "Writing up documents with an electronic device or an assigned method."

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

way of a communication, the Ministry of Finance preferred a rather unpractical way and made a legislative clause out of an international standard.[347]

A definition of financial leasing was given,[348] and fundamental accounting principles thereof were laid out. It was impossible though to perform accounting with these principles; therefore, Tax Procedure Act General Communication was issued, and the accounting of financial leasing transactions in conformity with international accounting standards started from 1 July 2003 onwards.

- Act No 5024 was adopted on 17 December 2003 and amended Article 298-bis of the Tax Procedure Act. It will be recalled that Article 298-bis was adjusting revaluation. Revaluation, which has been effective since 1983, did not correspond exactly to an inflation accounting (named "inflation correction" in the Tax Procedure Act).[349]

High inflation during almost thirty years crippled the homogeneity of financial statements, distorted their results, and made it impossible to compare these statements.

According to data provided by the State Institute of Statistics, the index of wholesale prices which was at 100 in 1976 rose up to 832 in 1980, 30.754 in 1990, 6.133.023 in 2000 and 19.857.103 in 2003, prices being multiplied by 198.570 over twenty-seven years.[350] Yet, according to IFRS 29, inflation accounting should be implemented as soon as a cumulative price increase for a period of three years attains 10%, that is to say, as soon as the general level of prices is multiplied by two. As in the case of financial leasing, Turkey resisted to implement this adjustment, too. Despite

[347] Authorities of the Ministry of Finance brought forwards the principle of "legality of taxes" to justify their position: "As is known, the Constitution stipulates that taxes can be laid only by law. If this regulation is introduced through a communication, it can be revoked on the basis infringement of the constitution." We shall discuss this view in the conclusion chapter.
[348] Definition in Article 290-bis of TPA is different from that given in the Financial Leasing Act. The TPA definition is nearer to the definition provided by the US GAAP.
[349] Uman, N. *Enflasyon Muhasebesi: Teori ve Uygalama*. Istanbul: Denet Publications, 2002: 32-4.
[350] Uman, N. and Hacırüstemoğlu, R. *Enflasyon Muhasebesi*. Istanbul: Alfa Publications, 2004: 1-3.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

pressures from the Capital Markets Board, international credit institutions, and foreign investors, the Ministry of Finance contented with partial solutions such as:[351]

- Revaluation of economic assets subject to depreciation (TPA, Article 298-bis)
- Depreciation allocation by way of declining balance method (TPA, Article 315-bis)
- Fixed asset renewal fund (TPA, Articles 328 and 329)
- Tax exemption in situations where earnings gained from real estate and participation stock sales are either added to the capital or invested as capital in kind in production plants (Corporate Tax Act, provisional Article 28)
- LIFO method in the appraisal of stocks (TPA, Articles 274 and 275)
- Revaluation in investment allowances (Income Tax Act, additional Article 4)
- Revision of asset values by using a revaluation coefficient in the case of real estate, participation stocks and depreciable asset sales, and land allotments to construction (ITA, clause appended to Article 38)
- Application of a tax relief rate on bond and treasury bill interests, credit interests, bank deposit interests, and repo gains (ITA, clause appended to Article 76).

In 2001, in the face of intense domestic and foreign pressures, the Capital Markets Board prepared and published the inflation accounting communication close

[351] Uman, N. *Enflasyon Muhasebesi: Teori ve Uygalama*, p. 32-4.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

to international standards but had to put back the application thereof until 2004 due to activities undertaken on this matter by the Ministry of Finance.[352]

On the other hand, the Banking Regulation and Supervision Agency (BRSA), which was established on 3 November 1988, drew up a separate inflation accounting communication for banks and put it into force as of 1 July 2002.[353] Banking has been the first sector obliged to implement inflation accounting in Turkey

Following the 2001 crisis, a new stand-by agreement was made with IMF, and a commitment was undertaken for complying with the International Accounting Standards and enforcing the implementation of all International Accounting Standards (IAS/IFRS) in Turkey from 1 January 2005 onwards.

As required by this commitment, the first adjustment realized was the accounting of "financial leasing transactions" brought in line with IAS 17 through Act No 4842 adopted in 2003 appending Article 290-bis to the Tax Procedure Act, which provided coherence with International Accounting Standards.

Activities then started over IAS 29 (International Accounting Standard – Financial Reporting in Hyperinflationary Economies)[354], which constitutes a field harder to implement and concerns a wider population. On 17 December 2003, Article 298-bis of the Tax Procedure Act was readjusted by the adoption of Act No 5024, and inflation accounting was implemented. Provisional Article 25 appended to the Tax Procedure Act obliged "*taxpayers keeping records for balance sheets to adjust non-monetary assets on their balance sheets of 31 December 2003… as per the prescriptions of Article 298-bis.*"

---

[352] For differences between the CMB Communication and IAS, see: Uman,N., *Enflasyon Muhasebesi: Teori ve Uygalama* , p. 207-36.
[353] Uman, and Hacırüstemoğlu, *op.cit.,*, p.261-76.
[354] The most widely known name is inflation accounting standard (IAS 29). See International Accounting Standards Board. *International Financial Reporting Standards IFRS 2004.*

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Tax Procedure Act general communications were issued in 2004 on inflation accounting. In conformity with these communications, "inflation adjustment" was applied country-wide to balance sheets as of 31 December 2003 and balance sheets and income statements as of 31 December 2004.

Inflation adjustment has not been applied in Turkey since 1 January 2005. This is because there has been introduced a condition for applying inflation adjustment in Turkey, condition inexistent in International Accounting Standards:

Income and corporate taxpayers assessing income for balance sheets shall apply inflation adjustment to their financial statements in the case where increase in price index exceeds 100% over the last three accounting periods[355], including current period, and 10% in the current accounting period. Inflation adjustment ceases if both of these conditions do not coexist (TPA, Article 298-bis, clause 1).

As is known, a lower and an upper limit are clearly stated in IFRS, without any condition, though, that they exist at the same time. The Ministry of Finance has reacted very restrictively in this matter. The Council of Ministers has been entrusted great powers thereof. According to this article: "The Council of Ministers is authorized to reduce the rate of 100% indicated in the present article down to 35% or raise back to its legal level, and to increase the rate of 10% up to 25% or to reduce back to its legal level."

Starting from onwards, inflation in Turkey declined rapidly, and a single-digit inflation period started. Upon this development, since inflation did not exceed the minimum annual rate of 10%, "inflation adjustment" implementation in Turkey has come to a stop. If conditions required by law for the application of "inflation adjustment" come together, adjustment procedures will start over again.

[355] As is known, according to Article 174 of TPA, "*an accounting period corresponds to a calendar year*."

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Act No 5228, which was adopted on 16 July 2004, readjusted articles relative to tax returns and, as part of the implementation of the e-state project, authorized the "transmission of tax returns by electronic means." The second and third clauses appended to Article 28 of TPA read as follows:

> When a tax return is transmitted by electronic means, then the accrual slip also is edited by electronic means and notified to taxpayers or real and legal persons authorized to transmit tax returns by electronic means. Said notes substitute communication of accrual slips to taxpayers. Procedures and principles of application of this article shall be determined by the Ministry of Finance.[356]

New procedures have been drawn up for business closing, and flexibility was provided to the obligation of keeping books in Turkish language through the following clause: "Books can also be kept in other languages provided that there exists Turkish booking" (TPA, Article 215). The principle of employing Turkish monetary unit was also eased through a clause which indicated that "documents may be drawn up in foreign monetary units provided that their counter values in Turkish money are also stated."[357]

- Act No 5281, which was adopted on 30 December 2004, introduced adjustments to maintain the compliance of tax acts with the New Turkish Lira

- Act No 5398, which was adopted on 3 July 2005, appended a clause to Article 257-bis of the Tax Procedure Act. According to said clause, the competences of the Ministry of Finance were enlarged, and the Ministry was empowered to dispatch electronic communications and adjustments since "electronically sent accrual slips and/or deficiency letters, which are addressed to taxpayers transmitting their tax returns by electronic means after due time, stand for official notices." Sixth

[356]The Ministry of Finance indeed made use of this authority and enlarged the scope of transmitting tax returns by electronic means; enterprises over a certain size were obligated to transmit tax returns by electronic means.

[357]An enterprise, of which the legal principal office is abroad and the paid-up capital is minimum 1000 million US dollars, may be allowed to keep books in a monetary unit other than the Turkish monetary unit, subject to authorization from the Council of Ministers (TPA, Article 215).

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

clause appended to said article also gave the following powers to the Ministry of Finance:

> "in order to ensure fiscal security, the Ministry is authorized to select and approve the utilisation of electric, electronic, magnetic, and similar devices and systems; to implement the obligation of employing particular etiquettes and marks, through the use of these devices and systems, such as labels, stamps, barcodes, holograms, coupons, cachets, and symbols; and to determine the procedures and principles thereon."

A clause appended to Article 355-bis of TPA stipulated that "those who do not conform to the obligation of transmitting their tax returns by electronic means shall be fined for special irregularity"[358].

Article 272 of TPA was amended, readjusting the inclusion of maintenance and repair expenses into the cost entry

Article 327 of TPA was amended, and new principles were determined for the payout of special costs.

6.13.4 Adoption of the Private Consumption Act:

The Private Consumption Tax, which derives the second greatest amount of income after the Value Added Tax, was adopted on 6 June 2002 and became effective as Act No 4760 from 1 August 2002 onwards. In fact, the Private Consumption Tax (PCT) is not a new tax; goods which are subject to PCT were earlier taxed under various titles through other acts. The PCT grouped them under one act. Four groups have been constituted out of these goods. List No I comprises fuel products and dyes, List No II vehicles, List No III alcoholic and soft drinks, and List No IV perfumery, luxurious kitchenware, white goods, music and video devices,

[358] In 2008, this special irregularity fine amounts to 1,490 YTL for first-class businessmen and 680 YTL for second-class businessmen.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

communication appliances, arms, crystal chandeliers, etc.; the goods on these lists are taxed as per rates indicated thereon.

6.14 Developments in Data Processing Technologies:

Computers are among the most significant inventions of the twentieth century. Invented during the Second World War for calculations in military and scientific researches, computers revealed a very rapid development, becoming usable in almost every field.

In 1960, there was only one data processing centre in Turkey, whereas this number attained 80 in 1970s.[359] The development of personal and laptop computers, incredible improvement of their capacity and speed, and shrinking of prices enable today the equipment of almost all companies with computers.

Accounting constitutes the field wherein computers are employed the most in enterprises. At the present day, it has become inconceivable to execute bookkeeping and accounting transactions without computers. "Accounting processes without computer necessitate much longer time and carry a higher risk of error. Taking over the functions of the recording, classification, recapitulation, and reporting of financial events or transactions, computers have made considerable contributions to the realisation of accounting procedures in a simpler and faster way and with fewer errors."[360]

Computer technology is considered as hardware and software. Developments in these two fields have been running parallel to the diffusion of computer employment. Given the fact that accounting departments of enterprises benefited the

[359] Uman, N. Bilgi İşlemde Kompüterler ve Türkiye'de Kompüterlerin Durumu. Ankara: Sevinç Publications, 1973: 159-63.
[360] Can, V. and Ceyhun, A.A. *Muhasebe Paket Programları*. Sakarya: Sakarya Printing House, 2004.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

most from computers, demand has accrued for software on accounting and management information systems. Software programs developed by international software companies (like SAP or Oracle) relate to accounting and management information systems but are at considerably elevated costs.

Accounting software programs, designed particularly for the use of small and medium-sized enterprises and of accountants' offices, are developed by domestic enterprises. These programs known under the name of accounting package programs (like ETA, LOGO, LINK, MIKRO, ORKA, DATASOFT, SOLON, and OM) comprise modes for booking, inventories, current accounts, invoices-receipts, checks, bills, and salaries.[361] These packages are compatible with the uniform accounting system and are widely used by both enterprises and accountants' offices.

The employment of computers in bookkeeping eliminated delays in accounting and enabled managements to trace all monetary events and financial results updated. Consequently, drawing up monthly financial statements became a matter of routine. The State is nowadays subjecting taxpayers to "provisional taxes" on the basis of quarterly financial statements instead of the previous annual taxation.

In addition to conventional accounting registers, electronic books, electronic documents, and electronic records have made their way into the Turkish financial system both in notion and in application

The development of internet technology accelerated information obtaining and interactivity. Almost every institution owns a website. Immediate access to all kinds of information is possible. The Ministry of Finance did not remain indifferent to such evolutions; tax returns have been transmitted via internet starting from 2004

[361] Can and Ceyhun, *op.cit.*, p. 32–47. A research by V. Can and A. A. Aygün on accounting package programs carried out at their accountancy office situated on the Asiatic side of Istanbul revealed that ORKA was the most widely used program at accountants' offices. Ibid, p. 108

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

onwards, and it is now compulsory for many taxpayers to present their tax returns through this means.

Developments of the last 25 years have led to almost a total elimination of the "manual recording" system that has been employed over six centuries and have turned the system of bookkeeping records into "electronic recording."[362]

6.15 Foundation of the Turkish Accounting Standards Board (TASB):

The Turkish Accounting Standards Board, which shall afterwards deeply influence the Turkish accounting practices, is in some way without a specific foundation statute. The act enabling the foundation of the TASB was adopted in a rather interesting manner.

Article 27 of Act No 4487, which was adopted on 18 December 1999, appended an article to the Capital Markets Act No 2499. The first clause of said article reads as below:

> The Turkish Accounting Standards Board is a public corporation with administrative and financial autonomy, set up in order to ensure the development and adoption of national accounting principles enabling that audited financial statements meet the requirements, are true, reliable, rational, comparable, and comprehensible, and in order to determine and publish the national accounting standards for common interest. The Board is a concerned body of the prime ministry.

On one side, the article states that the Board is equipped with "administrative and financial autonomy", and, on the other side, it states that the Board "is a concerned body of the prime ministry," marking a lower profile than "is attached to the prime ministry." The foundation of TASB was very appropriate. Yet, "the power

[362] As is known, there are four recording phases in accounting. These are the manual, mechanical, punched card, and electronic recording systems. Turkey did not really experience the second and third phases, skipping directly to the fourth phase. For further information on this subject, see: Uman, N. *Bilgi İşlemde Kompüterler ve Türkiye'de Kompüterlerin Durumu*, p. 6-12.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

of determining and publishing accounting standards" was delegated to the Ministry of Finance through a clause appended to the Tax Procedure Act under Act No 3762 already in 1991.[363] Consequently, there have been two institutions in Turkey legally empowered to determine accounting standards since 1999. The Capital Markets Board and the Banking Regulation and Supervision Agency, founded in 2002, should also be included in this list. At present, there are four organizations authorized to determine accounting standards and to enforce the application thereof.

Although the Act was adopted in 1999, TASB was not constituted immediately. This was because the creation of TASB was made through an article appended to the Capital Markets Act; therefore, there were arguments that it concerned exclusively the enterprises subject to the Capital Markets Board; having been earlier delegated same powers, the Ministry of Finance made an appeal and the period of objection was still continuing; and the board could not obtain sufficient income to cover its expenses.

During negotiations with IMF after the 2001 crisis, the topic of the necessity for an accounting standards board was brought up, and the authorities of the Ministry of Finance declared that such board already existed. Following these negotiations, it was decided to constitute the board and to activate it at the shortest possible time.[364]

The Turkish Accounting Standards Board comprises 9 members representing various organizations. According to the legal provision:

> The Turkish Accounting Standards Board is constituted of members from the Ministry of Finance, Ministry of Industry and Trade, Higher Education Council, Turkish Treasury, Capital Markets Board, Banking Regulation and Supervision Agency, Turkish Union of Chambers and Commodity

[363] According to said clause: "The Ministry of Finance and Customs is authorized to determine the procedures and principles for the issue of accounting standards, uniform chart of accounts, and financial statements… to enforce the implementation thereof and set up other relevant procedures and principles" TPA, Article 175

[364] Üstünel, Bülent, current chairman of the Turkish Accounting Standards Board, interview by the author. Istanbul, 2007.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

> Exchanges, one from each, and one chartered accountant and one certified public accountant from the Union of Chambers of Public Accountants, Certified Public Accountants and Chartered Accountants of Turkey, making a total of nine members. Term of office is three years for members. Replacement of a vacant membership before term expiration is effectuated by the relevant organization.

The Board started holding meetings in 2002, and the first thing done was the preparation of "instructions regulating the procedures and principles related to the activities of the Board and the nature and scope of implementation of standards to be determined by the Board." Although said instructions were quite rapidly prepared, their approval by the Council of Ministers became true only in 2004.

The Board represents Turkey at the International Accounting Standards Board (IASB)[365], and is at the same time engaged in intense activities. As Turkish accounting standards, the Board decided to make an exact translation of the standards drawn up by the International Accounting Standards Board. The reasons for this are that the European Union countries are obliged to use the IFRS since 2005, that negotiations for full membership of Turkey have already started, and that the utilization of IFRS is compulsory in over ninety countries worldwide. In line with this resolution, the Turkish Accounting Standards Board obtained, within the context of an agreement with the International Accounting Standards Board (IASB), the right to publish an exact copy of IFRS set as Turkish Accounting Standards. An English-Turkish accounting terms dictionary has been prepared, too.[366]

The Board also benefited from earlier studies undertaken by the Accounting and Auditing Standards Board of Turkey and started publishing Turkish accounting standards in the Official Gazette from 2005 onwards, displaying them at the same

---

[365] As mentioned earlier, the authority of representing Turkey at international organisations was given by Cabinet decision to the Expert Accountants' Association of Turkey. Giving same authority to the Turkish Accounting Standards also created problems.

[366] Said dictionary can be attained on the website of the Board.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

time on the Board website.[367] These published standards constitute an exact translation of the International Accounting Standards (IAS) or of the International Financial Reporting Standards (IFRS) as named at present.[368]

The Turkish Accounting Standards Board published, apart from the conceptual framework, 31 accounting standards coded TMS, and 7 accounting standards coded TFRS (See Annex 5.) Out of these, TMS 30 was abolished in 2007. The Board also published the communications on Turkish Financial Reporting Standards (TFRS).[369]

The application of these standards published "are compulsory in particular for enterprises subject to the Capital Markets Act, insurance companies, banks, other financial institutions, and for enterprises of a certain size; the application of the Turkish Accounting Standards is imposed as an obligation while drawing up individual financial statements and consolidated financial statements."[370] This enforcement is not yet empowered with any legal sanctions. However, enterprises in the banking sector as well as those trading on the stock exchange are preparing their consolidated financial statements as per the Turkish Accounting Standards in harmony with the International Financial Reporting Standards.[371]

For the case of small and medium-sized enterprises (SME), initiatives parallel to those of IASB are under way in Turkey, too.

---

[367] The website of the Board is www.tmsk.org.tr .
[368] Certain countries, having decided to implement international accounting standards, first made an exact translation and then converted the complete set thereof into their own standards. Akdogan, "Transition to international standards in financial reporting practices in the European Union member states – Efforts to approach the IAS of the accounting standards set forth by of the fourth and seventh directives of the European Union.", p. 18-9.
[369] Ibid., p. 29 -30.
[370] Ibid., p. 30.
[371] Akdogan, "Transition to international standards in financial reporting practices in the European Union member states – Efforts to approach the IAS of the accounting standards set forth by of the fourth and seventh directives of the European Union.", p. 30

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

6.16 Developments in Higher Education after 1980:

The Higher Education Council (HEC) was founded in 1982 by the adoption of Act No 2547. The HEC system was provided security through Articles 131 and 132 of the 1982 Constitution.

At the inception of HEC, during the academic year 1982–1983, the number of faculties providing accounting education was 18, the number of students 43,973 and the number of academicians 1594. Additionally, there were 43 two-year degree vocational schools with 14,000 students and 815 professors therein.[372] HEC has not created them but only standardized their structures and turned them into either faculties or vocational superior schools.[373]

In the HEC period, vocational superior schools augmented in number. Over a period of sixteen years, the number of vocational superior schools rose from 43 to 131 (in 1999). "Teaching staff is very deficient at these vocational schools wherein quite heavy accounting and business financing courses are given."[374] "It is a positive evolution that these schools providing a two-year superior education are spread all over Anatolia. Yet, filling vacant academic posts in these schools with local people employed at banks, public institutions or large companies, in other words, by people whose know-how level and pedagogic attributes remain questionable, constitutes the major fact that renders dubious the quality of education. Poor quality accounting education has, this way, become frequent in Anatolia." [375] According to Prof. Güvemli, the responsible thereof is HEC, because "under political pressures of the

---

[372] Ministry of National Education . *1982 -1983 Higher Education Statistics.*
[373] Güvemli, *op. cit.*, vol. IV, p. 400.
[374] A survey carried out in 1999 by the Association of Accountants and Finance Academicians in 61 vocational institutes giving high education in accounting revealed that there were 10890 students against 3 professors, 5 associate professors, 28 assistant professors, 5 research assistants, and 174 lecturers.
[375] Güvemli, *op. cit.*, vol. IV, p. 403.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Anatolian towns, HEC opened schools without any infrastructure"[376] Statistics confirm this situation. During the academic year 1983-1984, the number of students at vocational superior schools constituted 14.2% of the total number of students studying accounting; this percentage rose to 25.2% in 1987-1988, to 30.1% in 1992-1993, to 34.5% in 1995-1996, and 39.7% in 1995-1996.[377]

> "Throughout the period 1980-2000, there have been efforts to fill the part of accounting education in total education through poor-quality vocational schools providing a two-year superior education. In other words, the quality of accounting education compared with the general quality of superior studies, has been progressively deteriorating."[378]

On the other hand, the number of accounting and financing students who are pursuing master's degree studies or have obtained a master's degree constitute a very small percentage of total students. In the academic year 1999-2000, the number of accounting-financing students at master's degree level constituted only 0.9% of the total. Considering that the percentage of students studying accounting and financing attained 17.5% of the total number of students, it is evident that the situation is not very encouraging one.

The total number of students studying accounting in the 1999-2000 academic year was 204,000; but, when those at the Open University were also included, this number exceeded 350,000. The number of graduating students neared 40,000 and exceeded 50,000 together with those at the Open University. The number of academicians teaching accounting-financing at the same period was 587. The number of professors and associate professors in these fields was 137. "These figures reveal the disputable quality of accounting teaching at higher education."[379]

---

[376] Ibid., p. 408.
[377] Centre of Student Selection and Placement. *Higher Education Statistics 1999 - 2000*
[378] Güvemli, *op. cit.*, vol. IV, p. 408-9.
[379] Güvemli, *op. cit.*, vol. IV, p. 410.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

There is a new phenomenon in higher education introduced with Article 132 of the Constitution that enables the opening of foundation universities. At present, their number reaches 30. On the other hand, due to a very high demand for university education, new universities instead of two-year vocational schools have been set up in almost every province since 2001. There have been 15 new universities opened in 2005 and 17 in 2007, bringing the number of universities up to 115.

Students studying accounting have been steadily increasing numerical wise; yet, the quality of those graduating remains in question because the number of academicians is insufficient and infrastructural problems unresolved.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

CHAPTER 7

SUMMARY OF THE HISTORY OF ACCOUNTING PRACTICES IN TURKEY AND CONCLUSION

7.1 Phases of Accounting Practices

7.1.1 Practices prior to the Adoption of the Double Entry Method:

It has been observed how the manner in which the Ottoman society developed differently from the West European model had impacts on accounting practices. While leading European societies passed from mercantilism to the period of colony empires and then started experimenting industrialization, the Ottoman society and the Ottoman State were largely isolated from these evolutions. That is the reason why double entry accounting, origins of which date back to the 13th century and the theory thereof formulated towards the end of the 15th century, has not been implemented in the Ottoman Empire until the 1880s. The major reasons of this situation were that trade and industry were not developed, bourgeois class not constituted and that the *mardiban* system, inherited from Ilhanians, was considered sufficient over centuries.

7.1.2. Transition to Double Entry Method:

Transition to double entry method corresponds to the principal hypothesis of the present thesis: “accounting practices have been shaped in Turkey by the State through legislations:” Trade Treaty of 1838, westernization movements commencing with the *Tanzimat Fermani* (Imperial Decree of Adjustments) in 1839, start of industrialist developments in large cities and in the agriculturally rich Aegean

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Region, and modernisation steps taken by the State in the tax system obligatorily brought forward the implementation of legal adjustments in trade activities; and the first trade act was adapted from France in 1850. In parallel to these developments, French accounting literature and practices have deeply influenced Turkish accounting practices; the double entry method was implemented in Ottoman legislation. The undeniable French influence of the period continued until the First World War.

Although the introduction of double entry method was late in the Ottoman Empire, great importance was given to the education thereof, with accounting courses added to the education system starting from *Rustiye* (middle high school) to *Darulfunun* (university), and efforts were made for the implementation and propagation of the double entry method. In the period that runs from 1850 to 1914, the double entry method was employed by banks and insurance companies, foreign investment institutions, and large enterprises of the private sector.

7.1.3 Development of the Double Entry Method:

The hypothesis of the present thesis is strengthened by the fact that Ottoman practices have been amended in line with foreign policies rather than economical developments of the time. In close relations with Germany before and during the First World War, the Ottoman Empire became exposed to German influence in accounting practices, too. Diplomatic relations alone cannot explain this impact; it should also be recalled that the Ottoman and the following Republic's bureaucracies were educated and formed under Western cultures (first in France, then in Germany.)

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

These influences appear clearer after the fall of the Empire and during the restructuring period at the start of the Republic. There were legal reforms in this period, and the fiscal regime was readjusted. Among these adjustments was the Turkish Trade Act accepted in 1926. Resolutions adopted at the 1923 Izmir Economic Congress revealed that the development level of the economic structure of the country could not constitute a demand for accounting practices. The State therefore became once again the locomotive force of implementation, both theory-wise through legislations and application-wise through the State Economic Enterprises, and the German method of double entry became widespread in the country.

The five-year industrial plan, put in application in 1933, opted for development through State Economic Enterprises: Sumerbank and Etibank were established, and many other industrial institutions started production activities. The leading institution of accounting practices of the time was Sumerbank, and the Sumerbank Chart of Accounts, developed through the adoption of the chart of accounts of the German Wolkswagen Group, deeply influenced Turkish accounting practices until the 1970s.

German influence in accounting education and practices further increased when *Darulfunun* was closed and replaced by the Istanbul University in 1933; several high quality academicians invited to Turkey, and the Faculty of Economics of the Istanbul University founded in 1936.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

7.1.4 Enforcement of the Double Entry Method for All Commercial Companies:

The most radical change in accounting practices was also introduced by the State and once again in legislative form: the foundation of the Expert Accountants Board in 1945 and the adoption of three acts in 1949. These were the Corporate Tax Act, Income Tax Act, and the Tax Procedure Act. The Tax Procedure Act, in particular, organized accounting practices in detail just like “a guidebook”. Compliance being compulsory for certain sized companies, the Tax Procedure Act became the principal factor in the spread of accounting practices throughout the country, particularly of the double entry accounting system. Augmentation of tax controls increased accounting practices, strengthening the attitude of “bookkeeping for tax purposes”. Said attitude constitutes one of the major supports of the present thesis.

Augmentation of the number of universities and academies of economic and commercial sciences raised the number of qualified accounting staff. However, heavily focused on fiscal procedures, without considering production and market demand, university education of the period was unable to orient accounting practices.

In the period that runs from 1950 to 1980, there were two forces that influenced and oriented Turkish accounting procedures. These were, on one side, the accounting system employed by the State Economic Enterprises, leading forces of the commercial, industrial, and services sectors; and on the other side, the tax legislation, in particular the Tax Procedure Act, to which all state and private companies were obliged to conform. Credits of the Turkish Industrial Development Bank, founded in 1950 with the support of the World Bank, constituted a third factor.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The Bank obliged industrial companies to prepare standard financial statements for the granting and control of credits. This constituted the first appearance of the American school in practices.

The inevitable "influence of foreign models" entered the circuit once again, maybe not immediately after the Second World War but already in the 1960s; this time it was the American school which weighed the most. Act No 440 on State Economic Enterprises and Act No 468 on the Audit of State Economic Enterprises, adopted in 1964, organised the State Economic Enterprises which were at the time displaying a rather dispersed look. The "State Economic Enterprises Reorganization Commission," active from 1964 to 1971, worked out an accounting system for the State Economic Enterprises; the system was largely influenced from practices employed in the United States and became incumbent upon all State Economic Enterprises from 1972 onwards. However, the system which was based on quite advanced principles remained limited to the public sector, without great influence on the private sector. It was mainly due to the fact that accounting utilisation in the private sector was still tax oriented.

A development period, first without planning and then with planning, commenced in Turkey from the 1950s onwards; the number of both public and private enterprises increased considerably. The private sector was offered excellent conditions for development under the protection of high customs walls, application of quota systems in importation, and the policies of fixed exchange and negative interest rates. In the absence of foreign competence, most of the enterprises made used of accounting simply to execute a legal obligation rather than making a management and information instrument thereof. That is why the Ministry of Finance still remained the strongest driving force in accounting practices through the

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Tax Procedure Act (TPA) and other fiscal laws. For example, in spite of high inflation, revaluation indicated in the TPA could not be activated nor inflation accounting be implemented.

7.1.5 Appearance of Duality in Accounting Practices:

We need to wait for the post-1980 period in order to observe the first significant examples of accounting practices led by market conditions, considered natural laws in capitalist West European and North American countries.

With the adoption of the Capital Markets Act and the establishment of the Istanbul Stock exchange in 1981, a second legal force came into existence in the orientation of accounting practices. Empowered by law, the Stock Exchange made full use of the principle of "public information" and implemented several obligations, although limited to enterprises subject to the Capital Markets Board; among these obligations were a new chart of accounts, compulsory financial statements, and audits thereon. Enterprises subject to the Capital Markets Board were therefore faced, on one hand, with the obligation of compliance to bookkeeping and preparation of financial statements as required by the TPA and other fiscal legislations; and, on the other hand, with drawing up financial statements and audits conform to the provisions of the Capital Markets Board.

The Minister of Finance made an effort in 1990 to abrogate this duality. The "Uniform Accounting System" was adopted in 1992 and became incumbent upon all public and private enterprises from 1994 onwards. The Capital Markets Board annulled its own chart of accounting and adopted said system. There were some very significant differences, however, between the explications of the Uniform

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Accounting System and of the Tax Procedure Act in what concerns valuation, depreciation allowances, and definition of income and expenses. As the viewpoints of the Capital Markets Board and the Minister of Finance could not be approached, duality continued. Enterprises went on submitting separate statements to the Capital Markets Board and to the Minister of Finance.

Yet, Uniform Accounting System defends the uniformity of financial statements. According to this system, accounting practices are carried out with generally accepted accounting standards. Tax assessment is attained on the basis of financial statements prepared with these practices. Communications issued concerning the Uniform Accounting System were also in this line. But the principle of uniformity in financial statements could never be achieved because the provisions of the Tax Procedure Act are not in harmony with the explications provided by the Uniform Accounting Chart of Accounts and the International Accounting Standards.

With the establishment of the Turkish Accounting Standards Board (TASB) in 1999, the number of institutions legally authorized to issue accounting standards was raised to three: the TASB, the Ministry of Finance, and the Capital Markets Board. The crack of several banks following the 2001 crisis necessitated a closer follow-up of the banks. The powers of the Banking Regulation and Supervision Agency (BRSA), founded in 1988, were enlarged in 2002 with a further delegation of adjusting accounting practices in the banking sector. Therefore the number of institutions entitled to lead accounting practices was brought up to four.

On the other hand, the Turkish Accounting Standards Board commenced intensive activities, translated the complete set of IAS and FRS issued by the IASB, published them in the Official Gazette under the title of Turkish Accounting Standards (TAS) or Turkish Financial Reporting Standards (TFRS), and enforced

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

application thereof. But what shall be the sanction in the case of failure to compliance to the TAS or TFRS? Instead of abiding with these standards without sanctioning force, enterprises comply with the provisions of the Tax Procedure Act entitled to such sanctioning, and to some extent, to the Uniform Accounting System.

The Capital Markets Board adopted a resolution in 2006, abrogating the previously issued Accounting Communications and announced the adoption of the standards of the Turkish Accounting Standards Board. The BRSA also adopted a similar resolution. As of 2007, duality still persists between the Turkish Accounting Standards and the Tax Procedure Act and the Uniform Accounting System.

Conclusion:

The most important factors that have been orienting accounting practices and implementing modern accounting in Turkey since the 1950s were at the start the Ministry of Finance and fiscal legislations. Especially until 1980s, Tax Procedure Act leaded guiding accounting applications. After 1980s, with the development of the Turkish private sector, increased international investments, foundation of the *Sermaye Piyasası Kanunu,* Capital Markets Board (SPK) and *İstanbul Menkul Kıymet Borsası*, Istanbul Stock Exchange (IMKB) and foundation of the Türkiye Serbest Muhasebeci Mali müşavirler ve Yeminli Mali Müşavirler Odaları Birliği the Turkish Association Of Public Accountancy and Sworn in Certified Public Accountancy Chambers (TÜRMOB), however, these fiscal legislations and the Tax Procedure Act started to have a slowing, even blocking, effect on accounting practices.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

The development of accounting practices in Turkey since 1926 reveals that this development was long time under State control. Although the only exception may seem the accounting system of the state owned enterprises of 1930s which is adopted due the economic necessities rather than the legislative motives, still the choice of the German model and its adaptation is initiated by the state, not by market forces. Yet, developments over the last quarter of a century have proven that accounting practices cannot be shaped only through legislations but also by market conditions and international influences. Although there is still a duality as of today, it is evident that in medium or long term, this duality will also come to an end to the benefit of market conditions. Most probably, international standards will prevail over the Turkish accounting practices due to the impact of globalization, Europeanization, and foreign aids. The important issue at present is the next path that the world accounting practises will take and how Turkey will be influenced by such evolution. This question opens the door to other studies in the future and ends the present thesis.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Appendix A

The *Merdiban* (Stairs) System

Merdiban, is a single registry state accounting system which was used in the Ottoman Empire from inception until 1880. The origin dates back to the Ilhanian State of the 14th century. Although founded as a Mongolian State, they were influenced by the Turkish, Iranian, and Arab cultures, and under the reign of Ghazan Khan (1295-1304), they decided to make some structural changes in order to organise their tax income. The most noteworthy of these changes was the *merdiban* or *merdiven* (stairs) system developed for bookkeeping. Said system was transmitted to the Seljuks, Ilhanian vassals at the time, and later to the Ottomans. The system was further developed by the Ottomans and remained effective up to the end of the 19th century.

The *merdiban* system reflects the characteristics of the periods in which it was employed. For example, the Ilhanians made use of the *merdiban* both for booking income-expense accounts and for recording the events of the time. As for the Ottomans, *merdiban* consisted of accrual basis transactions. The most outstanding characteristic of the system is, however, that it was created and developed specifically for State accounting. That is why there is no profit account therein. Likewise, cash, stocks, other assets, and equities accounts are not covered either. Therefore, *merdiban* cannot meet the accounting needs of a tradesman. On the contrary, it was quite efficient in the calculation of State income and expenses. In the Ottoman Empire, *merdiban* was also used outside the State, at certain non profit institutions such as docks and customs. These institutions were sensitive to the balance of their income and expenses, and carried out their cost accounts through *merdiban*.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

One other particularity of *merdiban* is that a stenographic script, called *siyakat*, was used for registries. *Siyakat* first appeared during the Abbaside Period in the 9th century. The Ilhanians used Persian *siyakat* in writing up their definitive accounts, whereas the Ottoman *siyakat* was based on Arabic. There were two reasons for employing *siyakat*: Firstly, being an abbreviated form of script, *siyakat* evidently took little place. Secondly, confidentiality of State registers could be ensured to a certain degree. *Siyakat* was also employed in State correspondences, independently from the *merdiban* system.

There are four fundamental works left from the Ilhanian period describing and discussing *merdiban*; and the registers we have at hand today illustrate the developments in the Ottoman Empire. These registers can be considered as indicators revealing that in the Ottoman Empire the *merdiban* developed through practice and not theoretical debates and that the system was transmitted from one generation to the other within the framework of an apprentice-master relationship[380].

[380] Erkan, M., Aydemir, O., and Elitaş, C. "An Accounting System Used Between 14th and 19th Centuries in the Middle East: the Merdiven (Stairs) Method". Paper presented at *the 11th World Congress of Accounting Historians*. Nantes, 2006.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Appendix B

The *Gedik* System

Gedik is a term used in Islamic legislation that designates a limitless leasing of installations, machines, and worktables to tradesmen and craftsmen at shops and similar locations against a special authorisation from concerned landowner or administrating trustee.

Gedik, created a kind of a "usufruct right" over an immovable property to the benefit of *gedik* holder. The landowner or administrating trustee of that particular property had no longer the right to expel the renter or increase the rent. When a *gedik* holder died, his right was transmitted to his heirs.

Although *gedik* breaches the general rules of Islamic legislation, certain obligations led a number of Islamic jurists to adopt it. The application of *gedik* became widespread in the Ottoman Empire after Sheikhulislam Ebusuut Efendi pronounced a positive opinion thereon to the Sultan. In 1592, the number of tradesmen and craftsmen was limited through the enforcement of a special authorisation for opening new shops and business places. At this period, *gedik* holding became to have the same meaning as holding an authorisation to perform the professions of tradesman and craftsman. A *gedik* could be obtained either through a transfer or by way of a public auction. The new owner was obliged to exercise the same profession.

It was obligatory to prove the rights of use, transfer, assignation, pledging, etc. of a *gedik*, with documents approved both by the tradesmen's *kethuda* (chamberlain) and the court. Most *gedik*s installed in charity foundations were later donated to those foundations; and therefore, they became to be known as "leased foundations" over time.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

A public act issued in June 1861 prohibited the sale of unoccupied *gedik*s or any registry thereof by judges. According to this regulation, *gedik*s with official documents and deeds dating earlier than 1831 or those without court registry were considered invalid. Due do the *gedik* system it was becoming impossible to protect the rights of landowners An Act adopted on 2 March 1913 introduced a provision stipulating that *gedik* holders could become owners against a payment to the landlords of concerned properties, and that creating new *gedik*s was forbidden from then onwards.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Appendix C

Ahilik, the Akhis in the Ottoman Empire

Akhism, although there exist several disputes as to the dictionary meaning thereof, is an association of tradesmen and craftsmen generally believed to have appeared in the 13th century, with influences reaching up to the 20th century.

Upon the Mongolian advance led by Genghis Khan in the 13th century, Turkish merchants, tradesmen, and craftsmen living in cities such as Bukhara, Samarkand, Tashkent, and Merve were forced to immigrate to Anatolia, and started a sedentary life therein. Among these Turkish immigrants who contributed to the development of production and trade in Anatolia, those arriving by way of Iran were influenced by the Iranian culture.

At the time of these Turkish migrations, Greek and Armenian tradesmen and craftsmen dominated production and trade in Anatolia. There were difficulties stemming out from racial and religious differences between the Turkish and local tradesmen and craftsmen obstructing the way to mixing and living together. In this environment it was therefore natural for the Turks to get together and act collectively. This behaviour precisely is the origin of *Akhism.*

As Turks immigrating to Anatolia also represented Islam, *Akhism* was influenced by Islamic traditions. Yet, Neset Cagatay states that *Akhism* was not a religious order.

It is asserted that the founder of *Akhism* was *Akhi* Evran Veli (1236-1329). He was born in Azerbaijan, studied in the city of Nishabour in Khorasan and immigrated to Anatolia, settling in Kayseri. *Akhi* Evran was a Muslim mystic (*mutasavvif*); he was engaged in the profession of tannery (*debbag*) when he travelled from Kayseri to Kirsehir and founded the first *Akhi* organization therein. *Akhism* established by *Akhi*

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Evran is known to have great impact in Anatolia for a long time. For example, Evliya Celebi narrates that trade associations in Istanbul were founded as per the principles of *Futuwwa* (directory of accepted practices and rules of *Akhism*).

There are several *Futuwwa* manuscripts wherein ethical values to comply with are indicated: to obey God's commands, to be generous, to show love to all humanity regardless of religion and cult, to oppose cruelty, cruel people and injustice, and the like. Acceptance to *Akhism* and ascension within the organization were also set out in these *Futuwwa* manuscripts.

It has been affirmed that *Akhi* corporations educated young people starting from valiant and apprentice levels onwards, developing their professional skills and moral qualities at worktables in workshops, adding also a military education, so as to constitute a group of disciplined and mature youngsters who won the approval of all classes of the society.

Akhism originated from the profession of tannery but the artistic capacities and ethic qualities of *Akhism* shortly imposed superiority to other professional branches, as well.

Created under the influence of Islamic mysticism, *Futuwwa* manuscripts set out social life principles rather than trade principles. It can even be claimed that the social content of the *Futuwwa* manuscripts is greater than the trade content.

The regulatory power of *Futuwwa* manuscripts continued until the post-15th century Ottoman period; then, *Akhism* lost its efficiency, was first replaced by guilds and then reappeared under the name of *Gedik*.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Structure of the *Akhi* Corporations

Although with significant changes over time, the *Akhi* corporations were grouped by profession, and each corporation was administered by an elected board. The board was led by a sheikh called *esnaf seyhi* (tradesmen's sheikh). He was responsible for organizing relations between the State and producers-sellers. His assistant, *nakip*, inspected tradesmen. The lecture of prayers at meetings was also among his duties. As for the *kethuda* (chamberlain), known as *kahya* during the Ottoman period, he would come to office through elections but could start working only upon a *qadi* (Muslim judge) approval. Among his duties were the issue of tradesmanship authorizations, announcement of State orders to tradesmen, and application of sanctions.

The State carried out relations with the *Akhi* corporations through two institutions. The first was constituted of *muhtesip* (fiscal authorities). These were charged with the duty of informing tradesmen of State resolutions concerning them, and to effectuate concerned inspections. *Qadis* constituted a superior authority, and relations between corporations and *qadis* passed through these *muhtesips*. As for q*adis*, they handled trade-related court cases and issues that could not be resolved at *Akhi* administrative boards.

Two factors can be enumerated in the weakening of *Akhism*. The first was that from the 16th century onwards trade routes lost their importance, and competition with foreign goods became hard. The second factor was due to admission of soldiers into tradesmanship, as well as to peasants who migrated from villages to cities and who became workers, joining productions activities. To these should be added complaints from non-Muslim tradesmen who were not admitted to

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Akhism. The result of these developments was the creation of guilds with a more cosmopolitan construction, which gradually replaced the *Akhi* corporations. Yet, in certain sectors (such as loincloth trade) *Akhism* continued to exist for a long time.

Financial Structure of *Akhi* Corporations

It would be erroneous to say that tradesmen led by *Akhi* corporations possessed an advanced bookkeeping system because they constituted small economic units. *Akhi* corporations were charged with the duties of obtaining and distributing raw material to tradesmen, maintaining quality controls, and determining prices.

The financial activities of the corporations could be carried out by means of central funds (*orta sandiklari*). The functions of these central funds, six in number according to Mithat Gurata, were:

- Credit distributing: Supplying credits to tradesmen so as to protect them from usurers, generally to facilitate raw material purchases. These credits were granted against a certain interest.
- Raw material purchase and distribution: Corporations purchased raw materials and sold them to tradesmen with a certain profit margin, the merge being to the benefit of the fund.
- Retirement and aids: Payments were made to elderly people and/or those unable to work.
- Payment of Corporation charges: Expenses such as guest accommodations, meetings and requirements of administrative boards were also paid from the fund.

In order to perform these duties, the incomes of the Central Funds were:

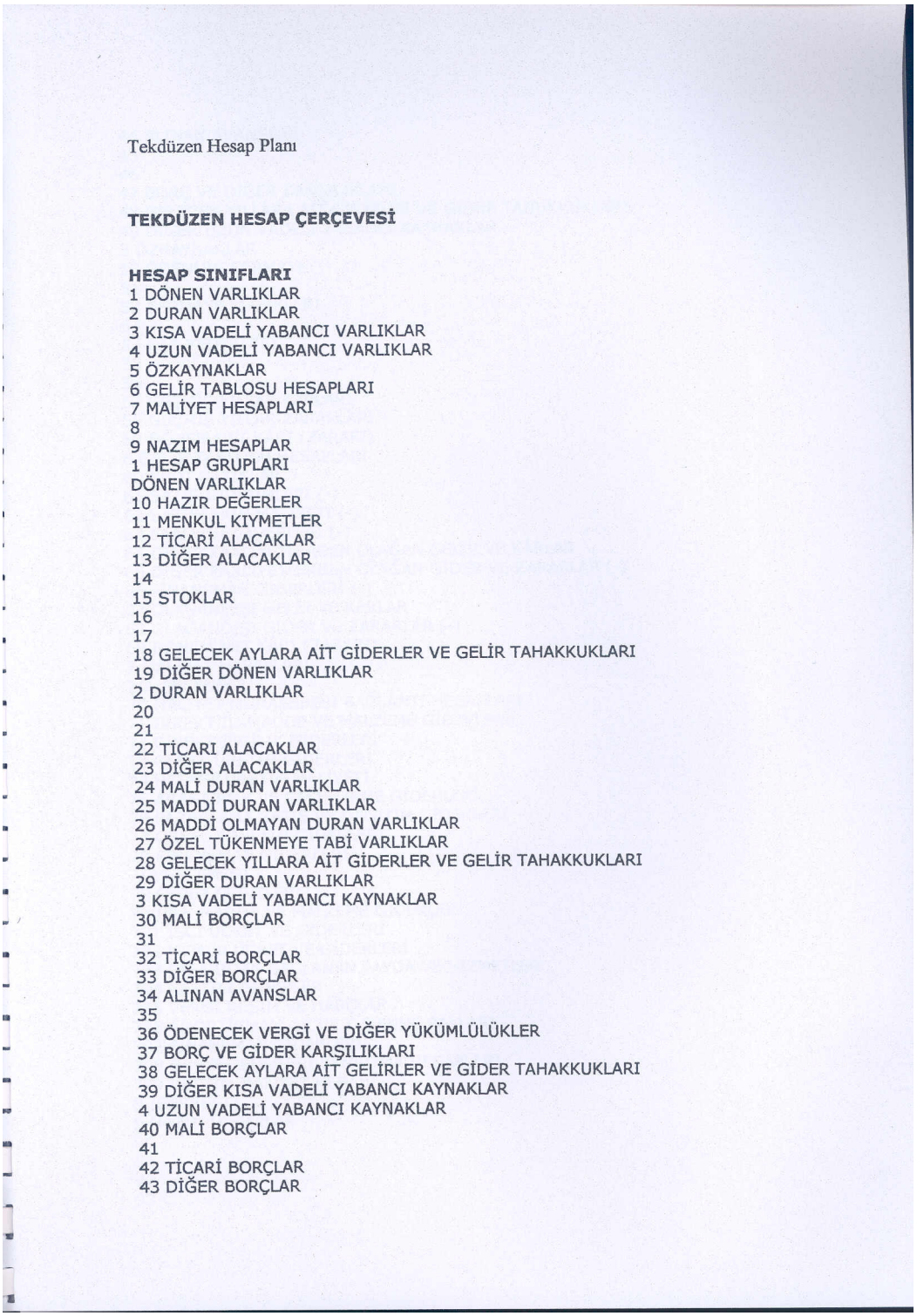
Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

- Donations of tradesmen,
- Donations of masters or fathers of assistants ascending to apprenticeship,
- Donations while ascending from foremanship to mastership,
- Income from credits and purchases and sells of raw materials,
- Income from corporation immovable properties,
- Monthly dues collected from tradesmen,
- Sums left over from aids collected to help families of tradesmen joining the army.[381]

[381] Güvemli, *op.cit*, vol III.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

APPENDIX D:



Tekdüzen Hesap Planı

TEKDÜZEN HESAP ÇERÇEVESİ

HESAP SINIFLARI
1 DÖNEN VARLIKLAR
2 DURAN VARLIKLAR
3 KISA VADELİ YABANCI VARLIKLAR
4 UZUN VADELİ YABANCI VARLIKLAR
5 ÖZKAYNAKLAR
6 GELİR TABLOSU HESAPLARI
7 MALİYET HESAPLARI
8
9 NAZIM HESAPLAR
1 HESAP GRUPLARI
DÖNEN VARLIKLAR
10 HAZIR DEĞERLER
11 MENKUL KIYMETLER
12 TİCARİ ALACAKLAR
13 DİĞER ALACAKLAR
14
15 STOKLAR
16
17
18 GELECEK AYLARA AİT GİDERLER VE GELİR TAHAKKUKLARI
19 DİĞER DÖNEN VARLIKLAR
2 DURAN VARLIKLAR
20
21
22 TİCARI ALACAKLAR
23 DİĞER ALACAKLAR
24 MALİ DURAN VARLIKLAR
25 MADDİ DURAN VARLIKLAR
26 MADDİ OLMAYAN DURAN VARLIKLAR
27 ÖZEL TÜKENMEYE TABİ VARLIKLAR
28 GELECEK YILLARA AİT GİDERLER VE GELİR TAHAKKUKLARI
29 DİĞER DURAN VARLIKLAR
3 KISA VADELİ YABANCI KAYNAKLAR
30 MALİ BORÇLAR
31
32 TİCARİ BORÇLAR
33 DİĞER BORÇLAR
34 ALINAN AVANSLAR
35
36 ÖDENECEK VERGİ VE DİĞER YÜKÜMLÜLÜKLER
37 BORÇ VE GİDER KARŞILIKLARI
38 GELECEK AYLARA AİT GELİRLER VE GİDER TAHAKKUKLARI
39 DİĞER KISA VADELİ YABANCI KAYNAKLAR
4 UZUN VADELİ YABANCI KAYNAKLAR
40 MALİ BORÇLAR
41
42 TİCARİ BORÇLAR
43 DİĞER BORÇLAR

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

44 ALINAN AVANSLAR
45
46
47 BORÇ VE DİĞER KARŞILIKLARI
48 GELECEK YILLARA AİT GELİRLER VE GİDER TAHUKKUKLARI
49 DİĞER UZUN VADELİ YABANCI KAYNAKLAR
5 ÖZKAYNAKLAR
50 ÖDENMİŞ SERMAYE
51
52 SERMAYE YEDEKLERİ
53
54 KÂR YEDEKLERİ
55
56
57 GEÇMİŞ YILLAR KÂRLARI
58 GEÇMİŞ YILLAR ZARARLARI
59 DÖNEM NET KÂRI (ZARARI)
6 GELİR TABLOSU HESAPLARI
60 BRÜT SATIŞLAR
61 SATIŞ İNDİRİMLERİ (-)
62 SATIŞLARIN MALİYETİ (-)
63 FAALİYET GİDERLERİ (-)
64 DİĞER FAALİYETLERDEN OLAĞAN GELİR VE KÂRLAR
65 DİĞER FAALİYETLERDEN OLAĞAN GİDER VE ZARARLAR (-)
66 FİNANSMAN GİDERLERİ (-)
67 OLAĞANDIŞI GELİR VE KÂRLAR
68 OLAĞANDIŞI GİDER VE ZARARLAR (-)
69 DÖNEM NET KÂRI (ZARARI)
7 MALİYET HESAPLARI
7/A SEÇENEĞİ
70 MALİYET MUHASEBESİ BAĞLANTI HESAPLARI
71 DİREKT İLKMADDE VE MALZEME GİDERLERİ
72 DİREKT İŞÇİLİK GİDERLERİ
73 GENEL ÜRETİM GİDERLERİ
74 HİZMET ÜRETİM MALİYETİ
75 ARAŞTIRMA VE GELİŞTİRME GİDERLERİ
76 PAZARLAMA SATIŞ VE DAĞITIM GİDERLERİ
77 GENEL YÖNETİM GİDERLERİ
78 FİNANSMAN GİDERLERİ
7/B SEÇENEGİ
79 GİDER ÇEŞİTLERİ
790 İLK MADDE VE MALZEME GİDERLERİ
791 İŞÇİ ÜCRET VE GİDERLERİ
792 MEMUR ÜCRET VE GİDERLERİ
793 DIŞARIDAN SAĞLANAN FAYDA VE HİZMETLER
794 ÇEŞİTLİ GİDERLER
795 VERGİ RESİM VE HARÇLAR
796 AMORTİSMANLAR VE TÜKENME PAYLARI
797 FİNANSMAN GİDERLERİ
798 GİDER ÇEŞİTLERİ YANSITMA HESAPLARI
799 ÜRETİM MALİYET HESABI
8 (SERBEST)
9 NAZIM HESAPLAR
90
91
92
93

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

APPENDIX E:

Türkiye İş Bankası 31 Kanunu evvel 1928 Bilançosu:

Matlubat

	Türk Lirası	Türk Lirası	
Kasa mevcudu		3.340.170	78
Bankalarda			
Mahalli Bankalarda	6.856.497,61		
Vilayet Bankalarında	55.597,79		
Memaliki Ecnebiye Bankalarında	3.416.164,04	10.328.259	44
Esham ve tahvilat cüzdanı		2.007.634	33
Seneden ticariye cüzdanı		8.131.163	29
Borçlular hesabatı cariyesi			
Emtia mukabili İkrazat	6.047.289,45		
Vesaiki Ticariye mukabili İkrazat	630.267,12		
Kefalet ve Teminatı mütenevvia mukabili İkrazat	10.338.232,30		
Açık kredi hesabatı cariyesi	120.008,53		
Esham ve Tahvilat mukabili ikrazat	561.121,81	17.696.919	21
Muhtelif Borçlular		1.897.226	66
Kefaletten dolayı borçlular		13.686.690	
Hesabatı nazıma			
Berayı tahsil tevdi olunan senedat cüzdanı	3.013.187,22		
Berayı tahsil tevdi olunan senedat muhabirleri cüzdanı	751.767,02		
Muhtelif hesabat	1.105.971,74	4.870.925	98
Emvali gayri menkule		739.695	
Demirbaş eşya		215.388	
Şuabat masarifi tesisiyesi		55.787	
		62.969.861	14

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Düyünat

	Türk Lirası	Türk Lirası	
Sermaye		4.000.000	
İhtiyat akçası	257.508,16		
Nizami ihtiyat akçası	58.991,84	316.500	
Fevkalade ihtiyat akçası			
Tevdiat			
Hesabatı Cariye	26.373.619,72		
Bankalar Hesabatı Cariyesi	4.182.476,18		
Tasarruf Sandığı	1.703.968,22		
	32.260.064,12		
Vadeli Mevduat	2.328.833,91	34.588.898	3
Muhtelif Alacaklılar		2.987.024	66
Tediye olunacak keşideler		276.817	73
Talep edilmemiş temettüat bakiyesi		435.304	26
Talepten evvel tediye olunan sermayeye faiz		6.333	95
Donanma Tahvilatı Senevi Tahsisatı		214.466	88
Donanma Tahvilatı Keşide Karşılığı		27.160	60
Kefaletten dolayı alacaklılar		13.686.690	20
Hesabatı Nazıma			
Tahsil olunacak senedat mudileri	3.764.954,24		
Muhtelif hesabat	1.105.971,74	4.870.925	98
Bedelatı		197.252	85
Kar		1.362.461	
		62.969.861	14

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Türkiye İş Bankası 31 Kanunu evvel 1928 Kar Zarar Tablosu:

ZİMMET

	Türk Lirası	
Masarifi Umumiye	1.064.557	10
Demirbaş eşya ve masarifi tesisiye itfa bedelatı	44.537	47
Safi Kar	1.362.481	
	2.471.575	57

MATLUP

	Türk Lirası	
Faiz	791.041	84
Komisyon	1.104.350	34
Kambiyo	175.198	50
Hissei İştirakler temettüü	290.784	41
Temettüatı muhtelife	110.033	85
1927 senesinden müdevver Kar	2.471.408	94
	166	63
	2.471.575	57

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Türkiye İş Bankası 31 Birinci kanun 1935 Bilançosu:

AKTİF

			Türk Lirası	Türk Lirası	
Kasa					
Banknot		13.295.218,00			
Altın		6.663,00			
Gümüş		143.372,00			
Ulaklık		16.188,22			
Çekler		73.291,89			
Ecnebi Paraları		46.778,30	13.581.511,41		
Dahili muhabir bankalar			2.600.652,99		
Harici muhabir bankalar			276.414,82	16.458.579	22
	Tasarruf tevdiatı karşılığı				
Hazine bonoları	3.082.500,00			6.674.331	
Milli sanayie iştirak cüzdanı					
Borsada kote olanlar			8.892.212,00		
Borsada kote olmayanlar			3.156.855,65	12.049.067	65
Senedat cüzdanı					
Vadesine üç ay kalanlar			6.069.614,59		
Vadesine üç aydan fazla kalanlar			1.104.206,22	7.173.820	81
Esham ve tahvilat cüzdanı					
Borsada kote olanlar	348.621,00		2.290.521,08		
Borsada kote olmayanlar	3.431.121,00		3.356.068,50	5.646.589	58
Avanslar					
Esham ve tahvilat muk.av.					
a-Borsada kote olanlar		138.875,10			
b-Borsada kote olmayanlar		227.103,97	365.979,07		
Emtia ve vesaik muk. Avanslar			4.151.581,58		
Senedat muk. Avanslar			211.224,21		
Sair mütenevvi teminat muk.av.			1.633.260,88	6.362.045	74
Borçlu cari hesaplar					
Açık kredi			10.846.533,34		
Kefalet muk. Krediler			2.828.957,19	13.675.490	53
Sair muhtelif borçlular					
Muhtelif borçlular			1.363.434,65		
Muhtelif hesaplar			2.285.692,14	3.649.126	79
İpotek mukabili avanslar				4.183.510	
Menkuller (hakiki kiymet üz.sigortalıdır)					
Makinalar			49.466,51		
Kasalar			87.017,91		
Mefruşat			175.622,41	312.106	83
Gayrimenkuller (binalar hakiki kiymet üz.sigortalıdır)					
Banka Binaları			1.181.105,56		
Diğer gayrimenkuller			688.598,99	1.869.705	55
İlk tesis masrafı bakiyesi				44.550	
Kefaletten dolayı borçlular				18.947.373	
Nazım hesaplar					
Tahsil senetleri cüzdanı		4.491.594,82			
Tahsil sener. Muhabirler cüzdanı		1.686.480,37	6.178.075,19		
Muhtelif nazım hesaplar			1.855.167,33	8.033.242	52
				105.079.654	19

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

PASİF

	Türk Lirası	Türk Lirası	
Sermaye		5.000.000	0
İhtiyatlar			
Fevkalade ihtiyatlar	1.030.000,00		
Kanuni ve nizami ihtiyatlar	1.819.000,00	2.849.000	0
Muhabir bankalar		2.520.862	51
Mevduat			
İbrazında cari hesaplar	26.975.839,30		
Preavili cari hesaplar	12.474.585,11		
Vadeli mevduat	250.588,64	39.701.013	5
Tasarruf tevdiatı			
Vadesiz	18.107.759,02		
Bir aya kadar vadeli	210.062,48		
Bir aydan bir seneye kadar vadeli	1.699.717,58		
Bir seneden fazla vadeli	172.905,30	20.190.444	38
Tediye emirleri		716.743	8
Sair muhtelif alacaklılar			
Muhtelif alacaklılar	1.614.311,77		
Muhtelif hesaplar	1.795.829,74	3.410.141	51
Donanma tahvilatı senevi tahsisatı		414.456	30
Donanma tahvilatı keşide karşılığı		32.177	50
Tahsis edilmiş karşılıklar		1.200.000	0
Talep olunmamış temettü ve kuponlar		233.265	43
Memurin tekaüt sandığı		1.104.102	70
Kefaletten dolayı alacaklılar		18.947.472	60
Nazım hesaplar			
Tahsil senetleri mudileri	6.178.075,19		
Muhtelif nazım hesaplar	1.855.167,33	8.033.242	53
		726.732	61
Cirolarımız	12.653.190,46		
		105.079.654	19

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Türkiye İş Bankası
31 Birincikanun 1935 Kar ve Zarar Hesabı

ZİMMET

		Türk Lirası	
Genel masraflar			
Maaşlar ve ücretler	1.579.762,70		
İdare masrafları	413.896,99		
Vergi ve harçlar	21.302,21		
Sair masraflar	57.992,48	2.072.954	38
Verilen faizler		2.180.418	31
Amortismanlar		220.885	26
Safi Kar		726.732	61
		5.200.990	56

MATLUP

		Türk Lirası	
Alınan faizler	3.163.779,09		
Alınan komisyonlar	354.420,27	3.518.199	36
Muhtelif Karlar		122.681	97
Banka hizmetleri mukabili alınan ücret ve komisyonlar		615.333	3
Kambiyo karı		114.347	73
Esham ve tahvilat cüzdanı ve iştiraklardan kar		785.633	78
Sigortadan kar		39.908	75
Geçen yıldan kalan kar		4.885	94
		5.200.990	56

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Türkiye İş Bankası 1960 Tarihli Bilançosu:

AKTİF

		Türk Lirası	
Kasa		331.256.756	
T.C Merkez Bankası		179.990.933	19
Serbest	94.778.542,44		
Kararname hesabı	85.212.390,75		
Kanuni Karşılıklar Kasası			
Munzam karşılıklar mukabili kıymetler	336.972.195,43	347.525.757	50
Diğer kanuni karşılıklar kasası	10.553.562,07		
Bankalar		26.032.189	
Tahviller ve hisse senetleri cüzdanı			
Hazine Plasman bonoları	80.000.000,00	154.351.992	82
Tahviller	74.351.992,82		
Senetler cüzdanı			
İştiraklerimiz (Bank.Ka.Mad.38 f.2)	10.000,00	225.355.875	16
Sair iştiraklerimiz	1.200.000,00		
Sair müşteriler	224.145.875,16		
Avanslar (Sair müşteriler)		809.717	16
Borçlu Cari Hesaplar			
İştiraklerimiz (Bank.Ka.Mad.38 f.2)	172.490.857,95	823.444.728	44
Sair iştiraklerimiz	17.216.884,71		
İştiraklerimizin kefaleti ile	3.077.074,15		
Sair müşteriler	630.659.911,63		
İştiraklerimiz			
Bankalar Ka.Mad. 48 f.1	16.691.306,20	146.909.744	88
Bankalar Ka.Mad. 48 f.1 ve Mu. Md.5	130.218.438,68		
Sabit Kıymetler			
Menkuller	11.898.130,46	70.839.138	20
Gayrimenkuller	58.941.007,74		
Muhtelif Borçlular		458.890	56
Diğer aktifler		88.367.625	19
		2.395.338.446	77
Nazım Hesaplar		2.147.954.631,00	58

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

PASİF

				Türk Lirası	
Sermaye				10.000	
İhtiyat Akçeleri				107.730.978	
Kanuni ihtiyatlar			10.851.561,51		
Fevkalade ihtiyatlar			96.879.416,49		
Karşılıklar				39.137.131	32
Taahhütlerimiz				121.620.452	89
T.C Merkez Bankası			15.487.532,79		
Transfer Emirleri			106.089.049,00		
Diğer Taahhütler			43.871,10		
Mevduat				1.978.634.033	40
	Vadesiz	Vadeli	Yekün		
Resmi mevduat	159.565.911,11	42.052.297,94	201.618.209,05		
Ticari mevduat	564.049.575,29	22.449.881,42	586.499.458,71		
Bankalar mevduatı	21.070.635,49	10.048.025,48	31.118.660,97		
Tasarruf mevduatı	991.153.936,90	168.243.769,77	1.159.397.706,67		
Tediye Emirleri				9.810.118	5
Muhtelif Alacaklılar				47.601.533	30
Talep olunmamış kıymetler				971.892	57
Diğer Pasifler				63.558.462	6
Karşılıklar				16.273.845	18
Geçen yıldan devreden			2.364,34		
Bilanço yılı karı			16.271.480,84		
				2.395.338.446	77
NAZIM HESAPLAR					
Cirolarımız			143.905.516,55		
Kefaletlerimiz					
İştirakler			47.604.107,47		
Sair müşteriler			244.759.835,09		
Diğer nazım hesaplar			1.711.685.172,47	2.147.954.631	58

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Türkiye İş Bankası 1960 Tarihli Kar ve Zarar Hesabı:

ZİMMET

	Türk Lirası	
Personel Masrafları	61.980.814	56
Vergi ve harçlar	9.352.832	86
Verilen faiz ve komisyonlar	49.092.658	75
Tasarrufu teşvik ikramiyeleri	7.660.272	23
Amortisman karşılıklar	22.527.733	71
Diğer masraf ve zararlar	22.023.123	69
Kar	16.273.845	18
	188.911.280	86

MATLUP

	Türk Lirası	
Alınan faiz ve komisyonlar	114.786.921	42
Tahviller ve hisse senetleri cüzdanı gelirleri	4.890.459	81
Banka hizmetleri mukabilinde alınan ücret ve komisyonlar	50.909.610	85
Kambiyo karı	259.326	72
İştiraklerimiz karı	11.658.293	90
Muhtelif karlar	6.406.668	16
	188.911.280	86

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

SÜMERBANK
Gemlik Suunipek ve Viskos Mamülleri Sanayii
Müessesesi 1950 Bilançosu

Aktif			Pasif	
Sabit Kıymetler		7.466.905,39	Sermaye İhtiyatlar	3.000.000,00
Stoklar		3.174.314,34	Karşılıklar	372.390,06
Borçlular		355.109,38	Alacaklılar	10.564,00
Kasa ve Bankalar		7.237,17	Emanet Paralar	6.834.934,62
Sair Aktifler		36.240,55	Sair Pasifler	167.489,43
			Karşılıklar	55.240,72
				579.188,01
	Yekün	11.019.806,83	Yekün	11.019.806,83
	Nazım Hesaplar	8.320.224,15	Nazım Hesaplar	8.320.224,15
	Genel Yekün	19.310.030,98	Genel Yekün	19.340.030,98

SÜMERBANK
Gemlik Suuğipek ve Viskos Mamülleri Sanayii
Müessesesi 1950 kar ve zarar cetveli

Zimmet			Matlup	
Satış zararları		6.804,26	Satış Karları	1.668.663,47
Satış vergi ve resimleri		1.049.033,00	Alınan faiz ve komisyonlar	645,11
Verilen faiz ve komisyonlar		34.898,80	Muhtelif karlar	73.773,19
Muhtelif zararlar		73.157,70		
	Yekün	1.163.893,76		
	Nazım Hesaplar	579.188,01		
	Genel Yekün	1.743.081,77	Genel Yekün	1.743.081,77

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

TÜRKİYE ŞEKER FABRİKALARI A.Ş.

1949 YILI BİLANÇOSU

AKTİF

			Türk Lirası	
I- SABİT KIYMETLER				
A- Binalar	21.433.693,88			
B- Makine ve Tesisler	15.117.119,65			
C- Demirbaşlar	8.153.125,37			
D- Arazi üstü ter.	2.129.469,01			
	46.833.407,91			
Amortismanlar	-27.813.505,80	19.019.902,11		
E- Arazi	999.349,61			
F- Bitmemiş işler	712.170,06	1.711.519,67	20.731.421	78
(Sabit Kıymetler TL73.170.000.- bedelle yangına, TL30.230.000.- bedelle infilaka kar. sigortalıdır.)				
II- MÜTEDAVİL KIYMETLER				
A- Anbarlar				
a) Ham madde ve malzeme	29.368.399,16			
b) Tali ve yarı mamüller	2.723.762,85			
c) Mamüller ve mahsule	85.459.390,16			
d) Dolmuş ambalaj	4.603.627,23	122.155.179,40		
(Mütehavvil esasına göre yangına karşı sigortalıdır)				
B- Canlı Stoklar		827.888,19		
C- Kasa ve Bankalar				
a) Kasa	297.921,52			
b) Bankalar	55.404,83	353.326,35		
D- İhtiyatlar karş. Kasası		3.184.931,37		
E- Borçlular		18.114.986,51	144.636.311	82
III- SAİR AKTİFLER			31.337.199	40
IV- İLK TESİS MASRAFLARI			2.129.002	49
Yekün			198.833.935	49
NAZIM HESAPLAR			23.108.238	43
GENEL YEKÜN			221.942.173	92

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

PASİF

		Türk Lirası	
I- SERMAYE		22.000.000	-
II- İHTİYATLAR			
A- Adi ihtiyatlar	3.462.701,37		
B- Olağanüstü ihtiyatlar	1.928.297,63		
C- Özel ihtiyatlar	11.591.755,34	15.982.754	31
III- KARŞILIKLAR		15.994.582	66
IV- ALACAKLILAR			
a) Bankalar	50.971.073,18		
b) Diğer alacaklılar	32.434.484,50	83.435.557	68
V- EMANET PARALAR		10.285.421	77
VI- SAİR PASİFLER		46.403.982	95
VII-EKZERSİZ SAFİ KARI		3.761.636	9
Yekün		198.833.935	49
NAZIM HESAPLAR		23.103.238	43
GENEL YEKÜN		221.942.173	92

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Ek : 4 Sümerbank Dokuma Birimlerinin

SÜMER
Birleşik Pamuk İpliği
31. 12. 1939

AKTİF

Hesap ismi	Bakırköy Bez Fab. Müfredat	Bakırköy Bez Fab. İcmâl	Ereğli Bez Fab. Müfredat	Ereğli Bez Fab. İcmâl	Kayseri Bez Fab. Müfredat	Kayseri Bez Fab. İcmâl	Nazilli Basma Fab. Müfredat	Nazilli Basma Fab. İcmâl	Müessese Merkezi Müfredat	Müessese Merkezi İcmâl	Müessese Müfredat	Müessese İcmâl
	Lira Kr.	Lira Kr.	Lira Kr.	Lira Kr.	Lira K.	Lira Kr.	Lira Kr.	Lira Kr.	Lira Kr.	Lira Kr.	Lira Kr.	Lira Kr.
1. HENÜZ ÖDENMEMİŞ SERMAYE	— —	— —	— —	— —	— —	— —	— —	— —	— —	751.959 03	— —	751.959 03
2. SABİT KIYMETLER :												
a) Arazi	4.500 00		17.405 98		128.580 67		19.040 69		— —		169.527 34	
b) Binalar	354.092 07		1.257.486 46		2.156.993 05		2.009.820 74		— —		5.778.392 32	
c) Makineler	883.458 79		1.441.180 02		2.718.651 10		1.345.141 92		— —		6.388.431 83	
d) Muhtelif tesisat	169.850 49		582.531 25		2.324.961 53		2.783.255 21		— —		5.860.598 48	
e) Alât ve edevat	41.388 19		— —		213.162 07		202.672 —		— —		457.222 26	
f) Demirbaşlar	14.570 60		82.513 18		102.193 63		93.596 69		— —		293.174 10	
g) İçtimaî teşkilât	— —	1.467.860 14	— —	3.331.116 39	481.938 54	8.126.480 59	— —	3.933.827 25	— —	— —	481.938 54	19.929.284 67
İlk tesis masrafları	— —	— —	— —	361.097 42	— —	464.569 44	— —	236.625 97	— —	— —	— —	1.112.292 83
3. MENKUL KIYMETLER :												
a) Ham madde ve malzeme	315.518 92		402.634 88		1.176.294 40		1.213.143 41				3.107.646 61	
b) Yarı mamul emtea	85.051 35		291.936 57		81.969 13		196.405 51		— —		655.412 56	
c) Mamul emtea	191.246 94		640.697 74		1.121.409 57		469.386 95		— —		2.422.732 20	
d) Ankonsinyasyon emtea	— —	591.817 21	— —	1.335.869 19	— —	2.379.664 10	— —	1.873.940 87	— —	— —	— —	6.185.791 37
4. BORÇLU HESAPLAR :												
a) Alacak senetleri	3.411 56		— —		— —		— —		3.793 86		7.237 92	
b) Hazine bonoları	— —		— —		— —		— —		236.766 39		236.766 39	
c) Müşteriler	3.512 46		272.092 08		352.376 14		52.246 10		— —		680.226 78	
d) Tesellüm mazbataları	153.305 70		— —		— —		— —		— —		153.305 70	
e) Muhtelif borçlular	9.963 91		63.490 95		45.899 74		170.890 90		678 01		290.923 51	
f) Muvakkat hesaplar	31.904 90		514.085 10		131.206 32		262.043 29		170.982 83		1.110.227 44	
g) Şüpheli borçlular	830 37		— —		524 64		917 77		— —		2.272 78	
h) Sümer Bank	— —		— —		— —		3.421 10		— —		3.421 10	
i) Mütavassıt hesaplar	— —	202.961 90	— —	849.663 13	8.330 28	538.337 12	9.428 42	498.952 58	— —	412.220 59	17.758 70	2.502.140 32
5. NAKDİ KIYMETLER :												
a) Kasa	3.431 62		23.861 72		56.806 69		10.039 59		9.293 39		103.433 01	
b) Bankalar	— —	3.431 62	67.937 58	91.799 30	377.731 44	434.538 13	486.715 92	496.755 51	1.960.567 95	1.969.861 34	2.892.952 89	2.996.385 90
6. ZARAR		— —		— —		— —		10.776 07		— —		10.776 07
Yekûn		2.266.070 87		6.019.030 93		11.943.589 38		10.125.878 25		3.134.040 96		33.488.630 39
7. NAZIM HESAPLAR		393.032 51		99.105 18		686.133 70		47		2.472.226 80		3.650.498 72
Umumî Yekûn		2.659.103 38		6.118.136 11		12.629.723 08		10.125.878 72		5.606.267 82		37.139.129 11

— 500 —

Okday Cilt IV

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

31. Aralık. 1939 Bilançoları

BANK
ve Dokuma Fabrikaları Müessesesi
Bilânçosu

PASİF

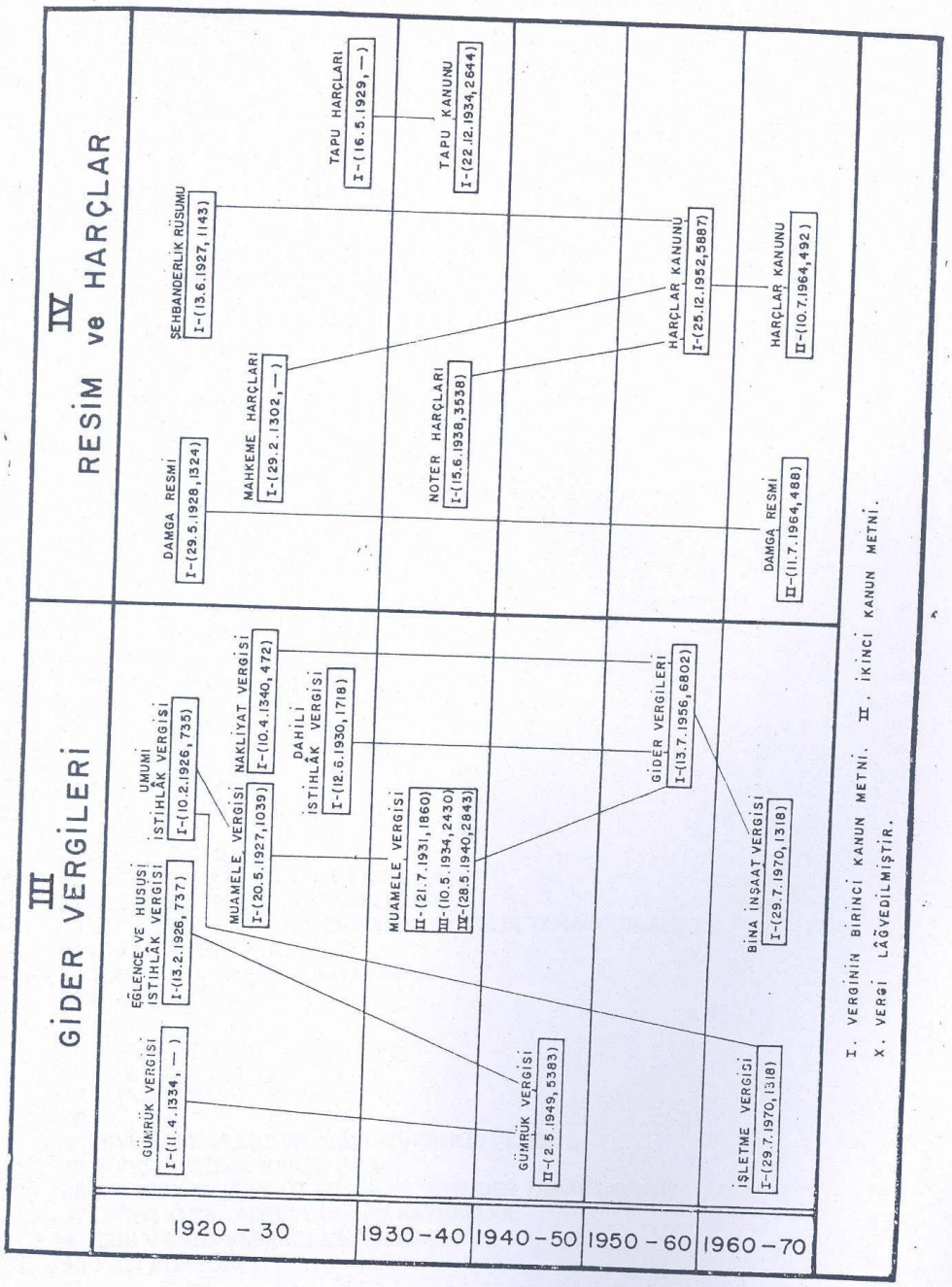
Hesap isimleri	Bakırköy Bez. Fab. Müfredat Lira	Bakırköy Bez. Fab. Müfredat Kr.	Bakırköy Bez. Fab. İcmâl Lira	Bakırköy Bez. Fab. İcmâl Kr.	Erağli Bez Fab. Müfredat Lira	Erağli Bez Fab. Müfredat Kr.	Erağli Bez Fab. İcmâl Lira	Erağli Bez Fab. İcmâl Kr.	Kayseri Bez Fab. Müfredat Lira	Kayseri Bez Fab. Müfredat Kr.	Kayseri Bez Fab. İcmâl Lira	Kayseri Bez Fab. İcmâl Kr.	Nazilli Basma Fab. Müfredat Lira	Nazilli Basma Fab. Müfredat Kr.	Nazilli Basma Fab. İcmâl Lira	Nazilli Basma Fab. İcmâl Kr.	Müessese Merkezi Müfredat Lira	Müessese Merkezi Müfredat Kr.	Müessese Merkezi İcmâl Lira	Müessese Merkezi İcmâl Kr.	Müessese Müfredat Lira	Müessese Müfredat Kr.	Müessese İcmâl Lira
1. SERMAYE			1.219.764	91			4.500.079	85			8.469.154	69			8.732.126	46			3.078.874	09			26.000.000
2. İHTİYATLAR:																							
a) Kanunî ihtiyatlar	60.492	73			—	—			—	—			—	—			—	—			60.492	73	
b) Birikmiş amortismanlar	499.850	55			517.007	23			1.801.245	49			855.922	75			—	—			3.674.026	02	
c) Fevkalâde	—	—			—	—			264.090	97			—	—			—	—			264.090	97	
d) Tesis masrafları amortismanları	—	—	560.343	29	156.094	74	673.101	97	362.849	48	2.428.185	94	57.325	08	913.247	83	—	—	—	—	576.269	30	4.574.879
3. MUHTELİF KARŞILIKLAR:																							
a) Meşkûk matlubat karşılığı	830	37			—	—			524	64			917	77			—	—			2.272	78	
b) Muhtemel malzeme tereffüü fiat ve mükellefiyet provizyonu	—	—	830	37	—	—	—	—	—	—	524	64	—	—	917	77	—	—	—	—	175.000	00	177.272
4. ALACAKLI HESAPLAR:																							
a) Bayiler	16.193	67			95.529	31			16.925	42			—	—			—	—			128.648	40	
b) Muhtelif alacaklılar	97.941	51			333.229	63			348.056	05			306.133	93			7.024	44			1.092.385	55	
c) Muvakkat hesaplar	32.402	87			43.782	28			113.349	40			171.446	39			48.142	43			409.123	87	
d) Sümer Bank	—	—			306.066	59			—	—			—	—			—	—			306.066	59	
e) Mutavassıt hesaplar	—	—	146.538	05	—	—	778.607	80	—	—	478.330	37	2.005	37	479.586	19	—	—	55.166	87	2.005	37	1.936.229
5. KÂR			338.594	26			67.261	31			567.393	24			—	—			—	—	973.248	81	
Muhtemel malzeme tereffüü fiat ve mükellefiyet provizyonunun tenzili			—	—			—	—			—	—			—	—					175.000	00	798.248
Yekûn			2.266.070	87			6.019.050	98			11.943.589	38			10.125.878	25			3.134.040	96			33.486.680
6. NAZIM HESAPLAR			393.032	51			99.105	18			686.133	70				47			2.472.226	86			3.650.498
Umumî Yekûn			2.659.103	38			6.118.156	11			12.629.723	08			10.125.878	72			5.606.267	82			37.139.129

SÜMER BANK

TABLO 1.2. TÜRK VERGİ SİSTEMİNİN GELİŞME ŞEMASI

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

(TABLO 1.2. Devam)



Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

BIBLIOGRAPHY

Ahmed Ziya. *Ticaret Kanunu Şerhi*. İstanbul: 1928.

Akın N., Erdem K., and Dinçer, G. *State Economic Enterprise Regulations, Statements and Justification.* Ankara: Mars Printing House, 1966.

Akyıldız A., Osmanlı Merkez teşkilatında Reform, İstanbul, 1993.

Akdoğan, N. *Financial Statements and Financial Analysis.* Ankara, 2007.

Akdoğan, N. "Transition to international standards in financial reporting practices in the European Union member states – Efforts to approach the IAS of the accounting standards set forth by of the fourth and seventh directives of the European Union." SBF Publications no: 590, TÜRMOB publication No. 221 Ankara, 2003: 33.

Akdoğan, N., and Sevilengül, O. *Tek Düzen Muhasebe Sistemi Uygulaması Türkiye Muhasebe Standartları ile Uyumlu.* 14th ed. Ankara: Gazi Publishing, 2007.

Aysan, M. "Ekonomik Gelişmede Kamu Teşebbüslerinin Rolü: Türkiye Örneği", Paper presented at the *The Increasing Responsibility and Sensibility of the State* congress held 10-13 July 2000 in Beijing.

Ateşünal, A. *Cumhuriyet Döneminde Yüksek Öğretimdeki gelişmeler.* Ankara: Ministry of Education, General Directorate of Higher Education Publication, 1980.

Aysan, M. "Türkiye'de Muhasebe Mesleğinin Gelişimi", *Mali Çözüm Dergisi.* September 1996.

Başbakanlık Umumi Heyeti. *İktisadi Murakabe Rehberi*. 2nd ed. Ankara: 1963.

Bulutoğlu K. *Türk Vergi Sistemi*. ed.4, Istanbul: Fakülteler Press, 1971.

Can, V. and Ceyhun, A.A. *Muhasebe Paket Programları*. Sakarya: Sakarya Printing House, 2004.

Centre of Student Selection and Placement. *Higher Education Statistics 1999 – 2000.*

Chatfield, M. *A History of Accounting Thought*. Robert E. Krieger Publishing Co., 2nd ed. 1977.

Cin, H. *Osmanlı Toprak Düzeni ve Bu Düzenin Bozulması*. Istanbul, 1985.

Choi, F. and Meek,G. International Accounting. 5th ed. Prentice Hall, 2005.

Çelik, O. "Boğaziçine Sığınanların Türkiyedeki İşletme ve Muhasebe Eğitimine Katkıları" *Muhasebe ve Denetime Bakış,* January, 21 (2007).

Degos, Jean-Guy. *Méthode de recherche en histoire de la comptabilité*. Crege: 1993.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Erginay A. *Tax Law*. 7th ed. Istanbul: Sevinç Printing, 1978.

Ertuna, Ö. *Inflation Adjusted Financial Statements Analysis,* Boğaziçi Üniversity Press, İstanbul, 1980.

Fertekligil, A. *Türkiye Borsasının Tarihçesi*. Istanbul: 1993.

Feyzioğlu, Bedi N. *Milli Muhasebe- Devlet Muhasebesi*. Istanbul: Sermet Publishing, 1966.

Gürsoy Bedri, *Kamusal Maliye*, Vol. II. Ankara: 1980.

Güvemli, Oktay. *Türk Devletleri Muhasebe Tarihi* vol. I. Istanbul: 1995.

Güvemli O. *Türk Devletleri Muhasebe Tarihi* vol. II. Istanbul: 1998.

Güvemli, Oktay. *Türk Devletleri Muhasebe Tarihi* vol. III. Istanbul: 2000.

Güvemli, Oktay. *Türk Devletleri Muhasebe Tarihi* vol. IV. Istanbul: 2001

Güvemli, Oktay. *Luca Pacioli ve Muhasebenin 500. yılı*. Istanbul: İst YMM. Odası Publication, 1995.

Güvemli O. "XIX Yüzyılda Türkiye'de Muhasebe Öğretim Kitapları". in *MÖDAV*, 3, (1997).

Güvemli O. *Yatırım Projelerinin Düzenlenmesi , Değerlendirilmesi ve İzlenmesi*. Ed. 6. Istanbul: 1997.

International Accounting Standards Board. *International Financial Reporting Standards IFRS 2004.*

İhsanoğlu E. *Osmanlı İmparatorluğunun Teknolojik Çağı Yakalama Gayretleri, Çağı Yakalayan Osmanlı*. Istanbul: 1985.

Karal, E. Z. *Osmanlı Tarihi*. Vol. IV. Ankara: 1976.

Keskinoğlu S. *Endüstride Hesap İşleri Bilgisine Giriş.* Istanbul: Hilal Printhouse, 1968.

Keymen, H. *Muhasebede Nazariyeler.* Ankara: Kardeş , 1967.

Kılıçdaroğlu, K. *1948 Türkiye İktisat Kongresi*. 2nd ed. Ankara: SPK yayını, 1997.

Koç, Y. *Genel Muhasebe, İlkeleri – Uygulaması*. Istanbul: Turhan Press, 10th ed., 1998.

Koç, Y. *Tek Düzen Muhasebe Sistemi ve Türkiye'deki Çalışmalar.* Ankara.Ankara University. Printhouse, 1973.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Koç Yalkın, Y. *Uniform Accounting System and Studies in Turkey.* Ankara: A.Ü. Printing House, 1975.

Kohler, E. *A Dictionary for Accountants*. Englewood Cliffs, N. J: Prentice-Hall Inc. 5th ed. 1975.

Kongar, Emre. *Turkey Towards the Twenty-first Century*. Istanbul: Remzi, 1998.

Kütükoğlu M. *Osmanlı – İngiliz Münasebetleri*. Istanbul, 1976.

Malche, A. "İstanbul Üniversitesi Hakkında Rapor". *Maarif Vekilliği Ana Programa Hazırlık* Seri B. No. 5 (1939).

Martal A. *Değişim Sürecinde İzmirde Sanayileşme, XIX yüzyıl*. Izmir: 1998.

Ministry of National Education . *1982 -1983 Higher Education Statistics*.

Ministry of Finance. *General Tax Reform Report.* Ankara, 1961.

Ministry of Finance. *A Report on the Activities of State Economic Enterprise in Turkey.* Ankara: 1961.

Ministry of Finance. *Special Reports Pertaining to Public Economic Enterprise Vols. 1, 2 and 3* ic, Ankara: 1961.

Ministry of Finance. *A Study on the Operation of State Economic Enterprise in Turkey-Reproducing A Policy Report dated May 8, 1961.* Ankara: 1961.

Ministry of Finance. *A Commentary Report dated July 6, 1961- Prepared for the Goverment of Turkey. 1961.* Ankara: 1962.

Ministry of Finance. *A Consolidated Report on the Public Economic Enterprises.* Ankara: 1962.

Ministry of Finance. *Public State Enterprise Basic Accounting Proposals and Recommendations,* Ankara: 1962.

Ministry of Finance and Customs. *The Rationale of Turkish Tax Laws, Income Tax Law*. vol. 1: Ankara: 1987.

Ministry of Finance and Customs. *The Rationale of Turkish Tax Laws, Income Tax Law. v*ol. III. Ankara: 1988.

Ökçün, G. *Türkiye İktisat Kongresi 1923 İzmir*. Ankara: SBF Publication No. 262.

Öztürk, Y. "İstanbul Üniversitesi 70 yaşında". *Bütün Dünya* 8 (2003).

Pakalın, M. Z. *Maliye Teşkilatı Tarihi* vol. IV. Ankara: 1977.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Pamuk, Şevket. *Osmanlı Ekonomisinde Bağımlılık ve Büyüme, 1820 – 1913*. Istanbul: 2nd ed. 1994.

Pamuk Ş. *Osmanlı İmparatorluğunda Paranın Tarihi*. Istanbul: Tarih Vakfı Yayınları, 1999.

Poroy, R. *Son ElliYyılda Türkiye'de Kara Ticaret Hukuku Alanındaki Kanunlaştırma Hareketlerinin Genel Teori Açısından Değerlendirilmesi*. Istanbul: İÜHF Publishing, 1973.

Revsine L., Collins D. W. and Johnson, W. B. *Financial Reporting and Analysis*, 3rd ed. New Jersey: Prentice Hall, 2005.

Rostow, W.W. *The Stage of EconomicGorowth: A Non-Communist Manifesto*. 3rd ed. Cambridge University Press, 1991.

Sadıklar. *Banks in the Turkish Financial System, Publication of the Turkish Banking Association*. Istanbul, 1981.

State Economic Enterprises Reorganisation Commission. *General Report.* Ankara: Güneş Printing House, 1968.

State Planning Organsation. *Towards Reform and Uniformity in Accounting Practices –Introduction.* Ankara: 1973.

State Planning Organisation. *Basic Concepts of Accounting and Generally Accepted Accounting Principles.* 3rd ed. Ankara, 1973.

State Planning Organisation. *Reporting System*. Ankara, 1975.

Şanda H. A. *İstanbul Borsasının Yüzyıllık Hayat*. Istanbul: 1966.

Tabakoğlu, A. *Türk İktisat Tarihi.* Istanbul: 2nd. ed, 1994.

Taşçıoğlu A. *Cumhuriyet Dönemi Bankalar Kanunları ve İlgili Yasal Düzenlemeler.* Istanbul: T. Bankalar Birliği Publication, 1998.

Tezel Y. *Cumhuriyet Döneminin İktisadi Tarihi*, *1923-1950*. ed. 3. Ankara: Tarih Vakfı Yurt Publishing, 1994.

The Accounting and Auditing Standards Board of Turkey. *Directives*. Ankara, 1994.

Trak, S. *İktisatTtarihi*. Istanbul: 1973.

Tuncer, S. *Türkiye'de Sermaye Piyasası, (Teori – Uygulama).* Istanbul: Okan Publishing, 1985.

Turkish Statistical Institute, "Osmanlı Sanayi 1913-1915 Yılları Sanayi İistatistiği" in *Tarihi Istatistikler Dizisi*, vol.IV. Ankara: 1997.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Turkish Statistical Institute. *Türkiye'de Toplumsal ve Ekonomik Gelişmenin 50 yılı*. Ankara: TSI publication, 1973.

Turkish Statistical Institute. *Milli Eğitimde 50 yıl, 1923- 1973.* Ankara: TSI publication, 1973.

Turkish Statistical Institute. *Movements of the Ministry of Education - 1927-1966.*

Turkish Statistical Institute. *Movements of the Ministry of Education - 1942-1977.*

Turkish Statistical Institute. *Statistical indications- 1923 -1995.* Ankara :1996.

Turkish Statistical Institute . *The Turkish Statistical Yearbook of 1979.*

Turkish Statistical Institute . *The Turkish Statistical Yearbook of 1987.*

Turkish Statistical Institute, *Monthly Statistics Communiques 1980.*

Turkish Language Institute. *Türkçe Sözlük*. Istanbul: 1992.

TÜRMOB. *Statistics Yearbook*. Ankara: 2007.

Uman, N. *Fiyat Hareketlerinin İşletmelerÜzerine Etkisi ve Yeniden Değerleme.* Ankara: Sevinç Printing House, 1968.

Uman, N. Bilgi İşlemde Kompüterler ve Türkiye'de Kompüterlerin Durumu. Ankara: Sevinç Publications, 1973.

Uman, N. *Enflasyon Muhasebesi*. Istanbul: Boğaziçi Üniversitesi Publication, 1979.

Uman, N. *Yeni Değerleme: Teori ve Uygulama*. Istanbul: Çağlayan Printing, 1983.

Uman, N. *Standart Mali Tablolar ve Hesap Planları.* Ankara*:* Turkish Capital Market Publications,1984

Uman, N. *Enflasyon Muhasebesi: Teori ve Uygalama.*. Istanbul: Denet Publications, 2002.

Uman, N. and Hacırüstemoğlu, R. *Enflasyon Muhasebesi*. Istanbul: Alfa Publications, 2004.

Uman, Y. "Finansal Kiralama ve Muhasebeleştirilmesi" *(*Ph.D. dissertation, Boğaziçi University, 1988).

Üstünel, Bülent, current chairman of the Turkish Accounting Standards Board, interview by the author. Istanbul, 2007.

Wild, J., Bernstein, L., and Subramanya, K.R. *Financial Statement Analysis*. McGraw Hill, 2001.

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.

Yılmaz F. *Devlet Borçlanması ve Osmanlıdan Cumhuriyete Dış Borçlar- Düyunu Umumiye*. Istanbul: 1996.

Yüksek Denetleme Kurulu. “Tekdüzen Genel Hesap Planı ve Açıklamaları”. Report of the specialized accounting commission formed within the Yüksek Denetleme Kurulu. Ankara; 1987

Please purchase PDF Split-Merge on www.verypdf.com to remove this watermark.