

The History and Classification of the Turkish Accounting System

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ABSTRACT: *Accounting is a social structure and is shaped by the society in which it operates. The needs of the society are the most important factors that are affecting the development of accounting in a country. Although in today's open system societies, the changes in the accounting are inevitable, we must not forget that accounting is not only a practice but also a discipline that has a theoretical and historical background. The development of an accounting system and practices in a country reflects its economic development as well as the legislative process. Turkey could not be an exception. The economic development of the country has led the accounting practices to change from tax and state orientation to international harmonization. In this respect, this paper highlights the changes in Turkish accounting system from the theoretical and historical perspectives.*

KEYWORDS: *Accounting Systems, International Accounting, Classification, Turkey.*

I. INTRODUCTION

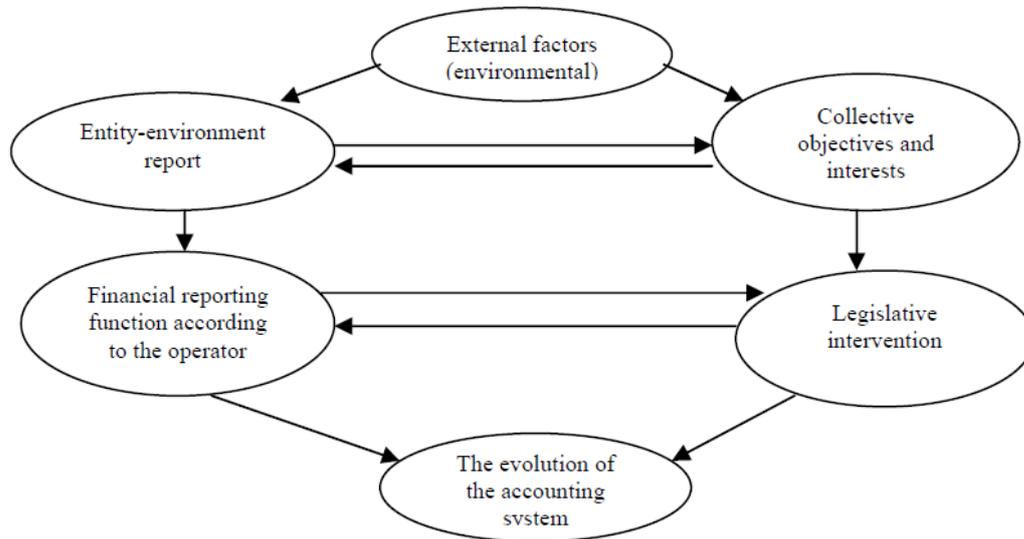
Turkey is a developing country in the Middle East, and is attracting an increasing number of foreign investments and joint ventures. However, the Turkish accounting system is not one of the topics that are studied in detail. Perhaps the language barrier could be the main reason. As the amount of foreign investments and the number of joint ventures and business is increasing and the Turkish stock market develops, a new responsibility will fall on accountants to disclose and discuss the current accounting system in Turkey.

Turkey has a very short history of accounting in the modern sense. However, it has been developing very fast since the 1980s in relation to accounting education, laws and foundations (Oker, et al. 2009). Since the establishment of the Turkish Republic in 1923, a state-oriented policy has been initially implemented, followed by the experimentation of a mixed economic model since the mid-1940s and the imposition of a more liberal economic policy since the 1980s. The latest alterations have naturally increased the amount of international capital movements into Turkey and thus the portion of foreign capital has increased. As a result of these developments, they have earned reliable, accurate and comparable financial information. Nowadays, Turkey has to prepare the required institutional and legislature system in order to better maintain the growing international financial and economic relationships. Besides the need to integrate within the world, Turkey is in the process of gaining the EU membership, which is leading to significant progress for convergence in the fields of international financial reporting standards and accounting system.

According to the literacy international accounting is defined as the science which studies the reasons for the differences between accounting systems as well as the functions associated with the international financial reporting system. According to an ancient Greek philosopher, Aristotle, has written: "if you would understand anything, understand its beginnings and development." So therefore, it will be appropriate to have historical look back about the emergence of the international accounting. The importance of international accounting can be attributed to its past developments. Accounting as we find it nowadays is the result of many combined efforts of number of different nations. The Double entry system was originated in Italy and from Italy it was spread to many other European countries. In the 18th century English people became instrumental to play an important role in transferring accounting and auditing not only to the USA but also to other countries. In the beginning of 20th century USA emerged as a super power not only in the field of political developments but also in the developments of accounting theory and practices. USA is dominating and in the development of accounting literature. Institutes like AAA and AICPA are playing an essential role in spreading the US accounting methods thought and practices to the European countries. So, it can be concluded that accounting has always been international from the time of its origin in Italy. According to Parker (1983) "Modern accounting is not the invention of one country; it has always been international in its scope". There are four different approaches to the definition of International Accounting:

1. World Accounting: According to this approach the International Accounting is a universal system of accounting which is easily acceptable in all the countries.
2. Comparative International Accounting: Under this approach International Accounting includes all varieties of accounting principles and methods of accounting in all the countries throughout the world.
3. Operational International Accounting: This approach covers the particular technical problem being faced by domestic corporations and multinational corporations in foreign business. These are typical operational problems like foreign currency translation, consolidation, foreign exchange risk management etc.
4. Politicized International Accounting: This approach itself clears emerged from the involvement of global political institutions such as UNs which are busy in bringing harmonization in divergent IA practices.

Figure 1: the influence of the external factors on IE



Source: Aureli, S.,(2015)

II. WHICH FACTORS ARE AFFECTING THE ACCOUNTING SYSTEMS

Each country's accounting system is affected by several important factors and the possibility these factors that affecting one country will be the same as those affecting another is minimal. This suggests that national specificities are reflected in accounting, and this is also obvious and in accounting differences at international level. Therefore, the link between the accounting systems and the environment of a country is important.

The factors that are affecting accounting are:

- The capital market, which refers to the classification of countries depending on the sources of funding that prevail (debt securities, loans) and the influence of globalization on the market
- The financial reporting systems
- The type of businesses. It is important to know the type of businesses in a country, their size and the status of the ownership
- The legal system, which, depending on the legal rules, leaves more or less room for interpretation on the part of the accountants
- Implementation of the legal system to demonstrate whether the law is being implemented in practice
- The level of inflation. Inflation is critical, since it affects the valuation level of the property
- Political and economic relations with other countries, which are the result of international trade.
- The quality of education in Accounting, which is directly related to the level of the knowledge society and the status of the accounting profession. (Cerne, 2009)
- Culture, since the interaction of groups is of primary importance in Accounting
- The professionalism of accountants. In his paper Grey (1988) mentioned the accountant's professionalism and he argued that the social values and behavior of accountants are the result of social and working conditions.

III. CLASSIFICATION OF THE ACCOUNTING MODELS

In the Western world, two basic accounting models have been developed (Nobes, C. 1998, 2011):

➤ **The French-German model:** It first appeared in France in the 17th century with state initiative and found a special appeal in countries where there is significant state intervention in the economy, such as the continental European countries. The model aims to regulate the relationship between the state and the business and contributes to the determination of taxable amount and to apply the principle of conservatism for business viability based on historical cost and the use of depreciation.

➤ **The Anglo-Saxon model:** It first appeared in Great Britain in the 19th century. It was mainly developed in countries where the relationship of the business with the investors has a leading role in the economy, while the state does not play an important role. The model, therefore, focuses on comparability, coherence, correct and in-depth information for decision-makers (Gray, S.J., 1988).

IV. THE HISTORY AND CLASSIFICATION OF THE TURKISH ACCOUNTING SYSTEM

The Ottoman Empire did not give the appropriate attention on trading and industry. As a consequence of that, the non-Muslim minorities and foreigners were involved in these activities. During the first half of the 20th century the accounting system of Turkey appeared to be fairly progressive in adopting accounting standards, first from German and French influences and subsequently from Anglo-Saxon influences.

During the historical evolution of accounting and accounting system in Turkey and until 1960, there was no significant change in accounting and the accounting system was not uniform. It was not put into effect in the literal sense of the term. Even the uniformity of the terminology was not specified among the literacy. In Turkey, where there was a shortage of funds, the first economic development began to take place under the guidance of the economic situation of the enterprises. These public companies, which were set up with state funds, were approved to provide guidance for the development of private enterprises. 1960 was the beginning to form a single accounting system to be used in these businesses (Balsari, et al., 2009). This uniform system was effective since 1972 and it was applied by the public economic enterprises The "Standard General Account Plan" which was published by the Capital Markets Board of Turkey in 1983, was an important step in the development of accounting. On the other hand, the "Uniform Account Plan for Banking Enterprises" and the "Uniform Account Plan for Insurance Enterprises" came into force in 1982 and 1992 respectively. The "Uniform Account System" was prepared in order to be used in all commercial and industrial enterprises which were operated in the country and came into force in 1994 (Kargin, S. 2013)

One important point to which Aysan (2010) stated was that there was no law to establish an accounting profession in Turkey until the remarkably late date of 1989. From 1923 onwards, there has been ongoing tension between Turkish accountants and Turkish lawyers; according to Aysan, lawyers have worked assiduously to prevent accountants from able to defend clients in court. These roots of this kind of inter-professional turf war can perhaps be traced to Ottoman traditions of strongly-defined professions. The professions and services of independent accountancy were defined in the Turkish Law No 3568 dated in June 1989. Through that law the accountancy profession had its legislation.

The decisions that have been taken in Turkish economy on 24 January 1980, have paved the way for internationalization of trade and globalization in general. These decisions combined and with the process of EU accession (which gained speed particularly in 2000s), have brought drastic and direct changes in the economy and accounting sectors of Turkey (Elitaş & Üç, 2009; Bursal, 1998). Turkey became a member of the IASC in 1974, one year after its establishment. Furthermore, Turkey made it optional in 2003 and (in parallel with the EU), obligatory in 2005 for enterprises quoted on the stock exchange the use of IFRS (International Financial Reporting Standards) (Cooke & Çürük, 1996; Mugaň & Akman, 2005). Therefore Turkey became one of the first countries which were to adapt the global process of accounting harmonization. The main reason for this situation is that Turkey has rapidly growing financial and real markets with increasing number of foreign investors and that, as an EU candidate country, Turkey has to align its legislation with EU regulations. However, taking into consideration that the enterprises in Turkey were not limited only to those quoted on the stock exchange, it is clearly understood that the rapid adaptation is limited only to one side of the coin. As is the case in many other countries, a major part of the Turkey's economy consists of small and medium size enterprises (SMEs). The small and medium size enterprises in Turkey were still implementing the accounting communiqués

issued by the Ministry of Finance. On the other hand, the companies that were quoted on the Stock Exchange continue keeping their accounting records in accordance with these communiqués due to their tax liabilities. In other words, they keep double accounting records. The Draft Turkish Commercial Law completed by the Ministry of Justice in 2005 entitles Turkish Accounting Standards Board (TASB) to set accounting standards and provides for each enterprise (including SMEs) to implement UFRS. As of 2009, this Draft Law is still under discussion in the General Assembly of the Turkish Parliament (GATP). Moreover, TASB is working on the preparation of UFRS sets applicable to SMEs (Bekçi, 2007; Aksoy, 2005). According to Yildiz, F., Elitas C. and Mustafa U. C., (2011) the accounting system most similar to the Turkish accounting system is that within Spain and is included in the Mixed Systems group synthesis properties of the Anglo-Saxon and Continental European accounting systems and is composed of countries which do not have a homogenous system.

V. CONCLUSION

Turkish accounting system has traditionally been rule based and aimed to report for tax authorities. Nowadays, efforts towards harmonization and standardization of accounting systems have gained speed. However, it cannot be suggested, in the light of the efforts to date, that national differences have been totally eliminated and that accounting systems have been standardized. Moreover, diversity in standardization shows that national accounting systems will continue to exist at a specific level under any circumstance and efforts. Regarding the classification, the Turkish accounting system could be classified in the Mixed Systems group synthesis properties of the Anglo-Saxon and Continental European accounting systems and is composed of countries which do not have a homogenous system. Finally, the accounting system which is most similar to the Turkish accounting system is that within Spain.

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