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THE REGULATIONS THAT INFLUENCED THE FORMATION OF THE CONCEPTION OF ACCOUNTING IN TURKEY DURING THE BEGINNING OF THE REPUBLIC ERA (1923 - 1930)

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ABSTRACT

After the declaration of the Turkish Republic in 1923, there was a need for reform in legislation in order to transform law and public structure from the effects of Sharia Law to the secular system. The new constitution and the Turkish Civil Code were among the basic laws enacted after the start of this new era. In addition, the Turkish Commerce Code was enacted in 1926. This included statements regarding the first book of accounts in Turkey: the book of first entry, inventory and balance books and the ledger book.

The second group of laws that influenced the formation of the conception of accounting in Turkey was related to taxation. Within the examined period three main tax laws were put into effect. The Profit Tax, Transaction Tax and Consumption Tax Codes called for the keeping of private books in addition to the book of accounts determined in the Commerce Code.

During the first years of the republic it was observed that the accounting system was determined by the definition of bookkeeping that was written in each different tax law. The reasons for this condition were the absence of a uniform system of accounts and the deficiency of a unique tax procedure code at the outset.

Keywords: Accounting, Tax Law, Republic Period.

Jel Classification: M40, M41, M48.

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CUMHURİYET DÖNEMİNİN BAŞLANGICINDA (1923 - 1930) TÜRKİYE'DE MUHASEBE ANLAYIŞINI ETKİLEYEN DÜZENLEMELER

ÖZ

1923 yılında Türkiye Cumhuriyeti'nin ilanından sonra, hukuk ve kamu yapısını Şeriat hukunun etkilerinden laik sisteme dönüştürmek için mevzuatta reform yapılmasına ihtiyaç duyulmuştur. Bu yeni dönemin başlangıcından sonra çıkarılan temel kanunlar arasında yeni Anayasa ve Türk Medeni Kanunu da yer almaktaydı. Ayrıca 1926 yılında Türk Ticaret Kanunu çıkarılmıştı. Bu yasa, Türkiye'deki ilk muhasebe defterine ilişkin ifadeleri içeriyordu: yevmiye defteri, envanter ve bilanço defterleri ve defter-i kebir.

Türkiye'de muhasebe anlayışının oluşumunu etkileyen ikinci grup kanunlar vergilendirme ile ilgiliydi. İncelenen dönem içinde üç ana vergi kanunu yürürlüğe girmişti. Kazanç Vergisi, Muamele Vergisi ve Tüketim Vergisi Kanunları, Ticaret Kanunu'nda belirlenen muhasebe defterlerinin yanı sıra özel defterlerin de tutulmasını zorunlu kılıyordu.

Cumhuriyetin ilk yıllarında muhasebe sisteminin, her farklı vergi kanununda yazılı olan defter tutma tanımına göre belirlendiği görülmüştür. Bu durumun nedenleri, başlangıçta tekdüzen bir muhasebe sisteminin olmaması ve tek bir vergi usul kanununun bulunmamasıdır.

Anahtar Kelimeler: Muhasebe, Vergi Kanunu, Cumhuriyet Dönemi.

JEL Sınıflandırması: M40, M41, M48.

1. INTRODUCTION

In the second half of the 19th century, the double-entry method in accounting was introduced and began to be used in the Ottoman Empire. Since the State played an effective and leading role in the implementation of reforms, the state accounting system was developed. This progress in accounting was seen in both the central state and its subsidiaries. The Merdiban Method (Güvemli & Güvemli, 2007) (Stairs Method) was being used as an accounting method among the state institutions. The private sector was not developed and some foreign enterprises were applying the double-entry method in which they kept their book of accounts in their own language. With the acceptance of the transition to the double-entry bookkeeping method in 1897, the principles of this new system began to be taught in schools (Güvemli, 2000). After these developments, there wasn't any progress seen during the first twenty years of the 20th century in the accounting agenda since it was a period of war for the country.

One of the other reasons for the slow development of accounting in Turkey was the Latin alphabet in which words were written from left to right. Contrary to this system, the Arabic letters that were used by the Ottomans were written from right to left. This introduced difficulties in the implementation of the double-entry method. Some of those difficulties included keeping assets on the right side of the book or writing accounts from right to left.

After the declaration of the Republic of Turkey in 1923, a certain number of revolutionary laws were put into effect in order to restructure the public order. These new laws helped the preparation of the transition process to the modern accounting implementations in Turkey. This new era started with the enactment of the new constitution. It also included the tax codes that had an influence on the establishment of the new accounting system. Moreover, one of the primary reasons for the expansion of the use of the double-entry method was the acceptance of the Latin alphabet in 1928. Since the method developed within a similar linguistic style, it was easier to understand and implement the rules.

With the issuance of the new laws at the beginning of the republic, a legal system was formed parallel to contemporary understanding. Besides that, the social and economic structure was modernized. This environment also contributed to the development of the modern accounting system within the country. Regulations that were issued during this period primarily shaped the modern conception of accounting that have progressed during the last 90 years of the republic.

In this paper we will explain the regulations that played an important role in the modernization of the accounting concept in Turkey at the beginning of the Republic Era. The analysis covers the period 1923- 1930 during which the basic legal arrangements were issued.

2. REGULATIONS THAT FORMED THE BASICS OF THE MODERN ACCOUNTING SYSTEM (1923 – 1926)

After the declaration of the republic, on 29 October 1923, the new assembly approved the new constitution on 22 April 1924. This new constitution led to the transformation of the legal structure that relied on Sharia Law. The modern understanding that had an influence on the preparation of new regulations also had an impact on the modernization of the accounting concept in Turkey. One of the primary reforms on this issue was the issuance of a law that eliminated Ashar Tax (Official Gazette, 1925). This regulation had a crucial impact on the accounting system which can be explained as follows: Ashar Tax was a 10% tax collected by the Ottomans on agricultural products. By removing Ashar Tax, not only did agricultural products start to be taxed at their market value but it also gave rise to the implementation of a new tax system. One mutual and important point about the new tax codes was the existence of provisions that determined the book of accounts which were necessary to calculate the tax base for the taxpayers. Although the young republic was in financial difficulties, the administration had the vision of transforming the tax system with a modern understanding even at the risk of losing revenue in the beginning.

It was not a coincidence that the formation of the modern accounting concept began with the enactment of new tax codes in Turkey. When we consider an environment with a strong centralist administration and weak private entrepreneurship, it is inevitable that the Ministry of Finance began the initiative to coordinate and supervise attempts to modernize the accounting system by enacting the necessary tax laws. It can be stated that the Ministry of Finance had a crucial influence on the development and existence of the accounting system, the organization of the profession and the determination of the standards.

According to the traditional centralist approach in Turkey, the modern accounting concept necessitated the realization of two issues. The first one was the need for the statutory obligation of double-entry bookkeeping. The second one was the need for the state to consider financial statements in reaching the tax base.

Two regulations that were enacted in 1926, the Turkish Commerce Code and the Profit Tax Code, realized the obligation of using the double- entry method and the definition of financial statements in obtaining the tax base (Official Gazette 1926a, 1926b).

Some provisions of the above mentioned laws related to accounting are explained below.

2.1. Books of Account and Financial Statements in the Turkish Commerce Code (1926)

The Turkish Commerce Code, effective since 1850 and influenced by the Code de Commerce of France (Güvemli & Aslan, 2018), could not be applied generally because of the existing order of Sharia rules. After the enactment of the Civil Code (Official Gazette, 1926c) in 1926, a new Commerce Code was also enacted in 1926 according to the new social and economic order.

The provisions made in the Commerce Code for bookkeeping and related documents are summarized below:

<u>Mandatory Book of Accounts (Art. 66 & 67):</u> Book of first entry, inventory book, balance book and letter book. Other necessary books shall also be kept. The letter book acts as a reminder and aims to create documents for bookkeeping. Commercial letters are also kept in the letter book. A Ledger is not included among the mandatory books.

<u>Accountants & the approval of the book of accounts (Art. 68 & 69)</u>: A book of accounts shall be kept either by the owner of the business or by an accountant. Books kept should be approved at the beginning of the year by a public notary. Moreover, the book of first entry should be approved after the last entry at the end of the year.

<u>Inventory and Balance Books (Art. 70):</u> The merchant shall enter, (a) the amount of cash he/she owns at the beginning, goods owned, fixed property, affiliates, notes and accounts receivables, (b) all liabilities, (c) owner's equity. This definition outlines the opening balance sheet. The provision also included that the merchant shall prepare the yearend balance sheet and the inventory.

<u>Legal validity of the books (Art. 76-84)</u>: Books of accounts shall be examined by the related parties and the courts and shall be accepted as a legal document (evidence) in the case of a conflict. If only one party <u>presents relate</u>d documents to the court, these should be accepted as valid evidence.

When we consider the above mentioned articles of the Commerce Code, a ledger was not defined as a book of account, and invoices and receipts were not addressed, balance sheets were defined. However, taking the existing conditions of the republic in the early stage into consideration, the new commerce code declared a modern understanding of accounting by defining the book of accounts and the balance sheet as legal documents. It can be stated that, by bringing new books and statements into consideration the Turkish Commerce Code of 1926 pioneered the formation of the modern accounting concept in Turkey.

2.2. Books of Account and Financial Statements in the Profit Tax Code (1926)

The Profit Tax Code not only regulated a taxation system based on profit, but also brought into focus the filing of tax returns and the auditing of accounts. This law stayed effective with necessary amendments until the big tax reform was put into effect in 1949. The provisions related to the subject of the paper are mentioned briefly below.

Necessity to file a tax return (Art. 3 & 4): Commercial firms, banking and insurance companies, agents, self-employed persons (e.g. doctors, dentists, lawyers) shall file their earnings before the end of the first half of the following year. A balance sheet and the statement of profit and loss should be attached to the tax return. After a while self-employed persons were exempt from filing returns.

Balance sheet (Art. 12): Inventories, fixed property, cash holdings and receivables must be placed on the assets side. Capital, retained earnings and debts are included on the liabilities side. If the asset side is greater than the liabilities, then it can be specified that a profit exists. On the contrary, if the amount of liabilities is greater than the amount of assets, it can be accepted that a loss exists.

Profit and Loss Account (Art. 13-15): A debit in the amount of the asset accounts would be considered a profit. A credit in the amount of the liability accounts and general expenditures, employee wages, rental fees, communication and insurance fees, interest payments and some other expenses would be considered a loss. The difference between the profit and loss accounts would be debited or credited. As a result the profit and loss accounts will be even. This amount of profit or loss should be equal to the amount of profit or loss attained from the balance sheet. The owner of the entity shall not write down the wage he/she earns from the company. The amount of depreciation shall not exceed 10% of the fixed assets. Reserve funds can only be set up in corporations.

Necessity for returns and statements to depend on the data valid in the books of accounts (Art. 16): Information on the tax returns and financial statements have to be consistent with the information in the approved books of accounts. Moreover, these books must be kept in Turkish and should be saved for three years.

Auditing of tax returns (Art. 18-23): Tax auditors have the authority to inspect the accuracy of the tax returns. Taxpayers have to submit all the necessary documents in the case of a tax audit.

Tax rate (Art. 24): The tax rate was set within the range 6% - 13%. When we consider the provisions of the Profit Tax Law, we can state that it included more direct regulations that had an influence on the formation of the accounting concept in Turkey compared to the Commerce Code. Some of the points related to the Profit Tax Code that had a crucial role in the development of modern accounting can be stated as follows:

- Since the profit tax was implemented widely among the taxpayers, there existed a proper environment for new accounting implementations to become prevalent.

- Balance sheet and profit-loss accounts included more detailed information than the financial statements defined in the Commerce Code. Since the tax was calculated on the business profit, the profit-loss account was explained in detail.
- The obligation of attaching financial statements to tax returns also favoured the importance of financial statements.
- The taxation system based on filing tax returns brought up the necessity for auditing of the financial statements, and the provisions regarding the tax audits existed in this law.
- The low tax rate had a positive influence on the taxpayers to comply with the new taxation system which also indirectly effected the adaptation of the new accounting implementations.

One important issue on accounting implementations was the language used in bookkeeping. During Ottoman rule, since commerce was generally under the control of minorities, merchants had the right to keep the books in their own languages. This was also changed by the new republican administration with a private law enacted in 1926.

2.3. Law Numbered 805 on Mandatory Use of Turkish Language by Economic Enterprises (1926)

While the republican administration was issuing laws in order to reshape the social, political and economic order, its nationalist approach played an important role in making the new laws. This law was enacted in 1926 under the influence of this situation (Official Gazette (1926d).

Some of the noteworthy provisions related to the topic are stated below.

Art.1: All types of companies and enterprises of Turkish origin shall make all transactions, agreements, notifications, and keep records and ledgers within Turkey, in Turkish

Art.2: For foreign companies and enterprises, this requirement is for notifications, transactions, and correspondence with Turkish companies, and documents and ledgers that are to be presented before state agencies.

With this regulation, the administration aligned the official accounting implementation with the official language.

During the 1923-1926 period, some other regulations related to accounting implementations were issued. One of the main legal arrangements was the Turkish Code of Obligations (Official Gazette, 1926e). It included a few provisions related to accounting implementations which were mainly on the acceptance of books and documents as evidence in commercial disputes.

3. REGULATIONS THAT FORMED THE BASICS OF THE MODERN ACCOUNTING SYSTEM (1927 – 1930)

The legal arrangements that had an influence on the development of the accounting system during this period were mainly in taxation. Although these regulations include provisions for bookkeeping and financial statements mainly for taxation purposes, they had a pioneering role in the progress of the accounting discipline. The Transaction Tax Code and Consumption Tax Code were the two basic regulations that had a guiding role in the implementation of accounting.

3.1. Books of Account and Financial Statements in the Transaction Tax Code (1927)

The Transaction Tax Code determined the basis of taxation on the sales of industrial organizations, amount of imports and the transactions of banks and insurance companies (Official Gazette, 1927a). In a general way it was the pioneer for the value added tax application; it can be a so-called industrial product and service tax. After the law was issued in 1927, several necessary amendments were made according to varying social and economic conditions and stayed effective until the main tax reform in 1949. Provisions related to the subject are mentioned below.

<u>Basis of taxation and tax rates (Art. 13):</u> The basis of taxation is determined from the sales of industrial organizations and imports (10%) and the transactions of banks and insurance companies (5%).

<u>Filing the tax return (Art. 23):</u> Taxpayers shall file tax returns for a monthly period until the 15^{th} of the following month. The type of the good and service delivered, and the quantity and amount are considered in the return.

<u>Books and documents kept (Art. 29-32)</u>:

a. *Book of manufacture:* It contained information on the purchasing date, quantity and amount of the raw materials, quantity and amount of the used materials, type and quantity of the manufactured goods, and type and quantity of goods purchased

b. *Book of transactions:* The amount of goods sold to domestic or foreign customers was registered in this book.

c. *Product purchase book:* It contained the type, quantity, and amount of the product purchased from a taxpayer who was in charge of transaction tax. Also the invoice date and number would be found.

d. *Sales Book:* It contained information on the invoice, type, quantity and amount of the product sold to a taxpayer liable for transaction tax. These records allowed taxpayers to deduct the transaction tax paid when purchasing the product.

e. Invoice: Taxpayers had to prepare invoices for the goods they sold. Invoices had to have serial numbers. While the original copy had to be given to the customer, the other copy was to be kept in the business.

Since a chart of accounts was not defined in general, Each tax code had the tendency to set the rules for making entries in terms of accounting. As is mentioned above, both the Profit Tax and the Transaction Tax

Codes included provisions regarding the bookkeeping procedure. This case also existed in the Consumption Tax Code explained below. Moreover, it could be stated that the accounting system proposed in the Transaction Tax Code was a primitive form of today's value added tax idea.

Finally, one other important issue related to the transaction tax was the implementation of auditing. The related provision was stated in Article 36 of the Tax Code. Since the Tax Procedures Code did not exist, there was no specific law regarding the duties and responsibilities of the tax auditors during the examined era. Each tax code included provisions related to the audit implementation which was basically an accounting audit.

3.2. Books of Account and Financial Statements in the Consumption Tax Code (1926 & 1930)

The last tax code that had an influence on the modern accounting conception in Turkey during the 1923-1930 era was the Consumption Tax Code. It introduced regulations on the fixed taxation of the sale of sugar produced, oil production and oil imports in 1926. It was calculated as a fixed amount on the quantity of sugar (kilogram) and oil (litre). Although this code was revoked with the issuance of the Transaction Tax Code that determined the basis of taxation on the sales of industrial organizations and imports and the transactions of banks and insurance companies in 1927 (Güvemli, 2001), it was put into effect again in 1930. According to the new regulation taxpayers within the scope of this tax were exempt from the transaction tax. Moreover, while the transaction tax was abolished with the issuance of the Tax Procedure Law in 1949, the consumption tax remained effective for a while.

The necessary accounting order and audit procedure was explained in the Consumption Tax Code (Official Gazette, 1930). Related provisions of the code are stated below.

<u>Books kept to calculate the tax base (Art. 8)</u>: Industrial establishments (factories that produce sugar, and oil production plants) had to keep a warehouse book, sales book and invoice book for the raw materials they used and the product they manufactured. They also had to record the tax accrued within this book.

The warehouse book mentioned in this article contained information on the amount of raw materials and products that entered and exited the business. The contents of the sales book and invoice book were explained in detail in an additional legal arrangement (Ülkmen, 1939) mentioned below.

Sales book: While the increase in the amount of product (purchase) at the warehouse was debited, the decrease in the amount of product (sale) was credited to the account. Registers on the credit side regarding the sales included information on the date, document number, quantity of product sold, unit price and amount.

Invoice book: It included information related to the product sold. The name and address of the purchaser, quantity and unit price of the product sold were among this information.

Mainly, four legal arrangements that included provisions regarding accounting information were emphasized under the analysis above. These were:

- The Commerce Code (1926)
- The Profit Tax Code (1926)
- The Transaction Tax Code (1927)
- The Consumption Tax Code (1926 & 1930)

All of these four regulations had provision for explaining the bookkeeping procedures of the entities. The above mentioned tax codes remained effective until the wide-ranging tax reform in 1949. It can be concluded that in the first 25 years of the republic, the accounting perception of those laws played an important role in the foundation and development of the accounting conception.

In conclusion, this order and understanding of accounting was formed during the seven-year period following the foundation of the republic. This formation was structured as follows: the Commerce Code stated which legal books needed to be kept and introduced the balance sheet as a financial statement. These had to be kept and prepared by all businesses. In addition, tax laws tried to regulate the accounting implementation and bookkeeping procedure in order to satisfy their own tax oriented necessities.

According to the above arguments it is possible to identify businesses in three separate groups in terms of applying the related accounting rules determined in the above mentioned laws.

The first group was composed of taxpayers liable to both the Profit Tax Code and the Commerce Code regarding bookkeeping entries. Since the profit tax had a widespread field of application, all the taxpayers who were not liable to consumption tax or transaction tax were in this group.

The second group included profit taxpayers, who had to adopt the principles of the Commerce Code, and taxpayers liable to transaction tax and its rules regarding private accounting applications. Since transaction taxpayers were also liable to the profit tax, they had to keep double books according to separate legal arrangements.

The third group covered the profit taxpayers who adopted the accounting rules of the Commerce Code and who were liable to consumption tax. According to the regulation, businesses liable to consumption tax should not be subject to transaction tax. Taxpayers in this group also had to keep double books since both regulations demanded different types of bookkeeping.

The reason for this dual structure in bookkeeping was the formation of an accounting concept that took into account the necessary requirements of the new accounting order. In order to give a clear explanation, it should be noted that a taxpayer liable to transaction tax had to keep three different books (book of manufacturing, book of transactions and product purchases book) to comply with the accounting regulations. It can be mentioned that these obligations had a negative influence on businesses by increasing the burden on them. One other crucial point about the transaction tax code was the provision explaining the documents (invoices) for the first time in accounting implementation. After the issuance of other related laws, the concept of accounting documents expanded and new forms were put into effect.

4. REGULATIONS THAT EXPANDED THE ACCOUNTING APPLICATIONS DURING THE 1927 - 1930 PERIOD

The four legal arrangements (commerce code, profit tax code, transaction tax code and consumption tax code) explained in detail above, constituted two basic issues. While one was the formation of a trade and tax order, the other was the establishment of the new accounting rules.

While these were considered to be the major regulations influencing the conception of accounting in Turkey, several sub-regulations also played a crucial role in the development process. Some of these arrangements included provisions that supported an increase in the number of businesses that had to keep the new books brought about by the new regulations. Others determined the rules of state accounting. One additional part adopted rules regarding the development of auditing. Apart from these, the changeover to the Latin alphabet was also crucial in the transition to the double-entry bookkeeping method.

The expansion of the new accounting rules and order, basically formed by the tax regulations, depended on the increase in the number of businesses in the country. These legal arrangements included provisions mainly related to private enterprises. In addition, there was a need for regulations to put the state accounting implementation in order. Two legal arrangements, which will be mentioned below, played a crucial role in both the expansion of private enterprises and the formation of state accounting. The first one was the Law on the Encouragement of Industrial Enterprises; the other one was the General Accounting Law.

4.1.The Incentives of Industry Law (Official Gazette, 1927b) (1927)

The encouragement of private enterprises by the republican administration caused an increase in the number of businesses that were liable to apply the new accounting rules. This also ensured the recognition of the accounting audit among businesses. It should be stated that the number of private enterprises was few at the time the new law was enacted. This law brought about several incentives that had a positive impact on the formation of new businesses. These incentives included an exemption for the newly formed enterprises from the above mentioned profit tax. Investment goods that were imported by those businesses founded according to this law also were excluded from the customs tax. Moreover, the state allocated land for these types of investments free of charge for a fifteen year period. The law included three main points regarding the accounting implementation.

The first related subject was on the nationality of the accounting managers and their associates. The law stated that while accounting managers and their assistant could be foreign nationals, other employees must be Turkish citizens. This provision showed the nationalistic characteristic of the new administration and the priority given to the employment of Turkish citizens. The reason for the allowance of foreign nationals to be an accountant was the lack of accountants who were qualified enough to manage business in new enterprises. This was one of the reasons that the republic did recognize accounting education.

The second issue was the need for projected financial information that had to be prepared for the necessary application before the investment started. Besides proforma invoices related to investments, calculations on the projected amount of an investment and a balance sheet that showed the projected financial sources had to be made and an income statement that showed estimated sales and profit amounts after a facility starts manufacturing had also to be prepared. All these implementations were crucial for the inclusion of projections in accounting literature in Turkey.

The third related point was the need to prepare the financial statements and accounting data as the investment is completed in order to benefit from the incentives granted by the state. This gave accounting another role besides that for being developed and implemented just for taxation reasons. The investment amount was calculated based on the financial documents and the amount of exclusion from the profit tax that was decided on the income statements, including proper information regarding the investment. The lawmakers also regulated the audit of projections and implementations in order to control the accuracy of the declarations.

Although The Industrial Encouragement Law stayed in effect for fifteen years, it was revoked as the Second World War started. However, it has had a positive influence on the introduction of investment projections and the expansion of accounting among private businesses.

4.2. The General Accounting Law (1927)

While the new republican administration enacted certain regulations that indirectly influenced the development of accounting implementation in private enterprises, it also took the necessary steps to regulate state accounting. For this purpose, the General Accounting Law (Official Gazette, 1927c)was enacted in 1927.

In this code, the definition of the state account and the related people who had a role in revenue collection and expenditures was presented in detail. While the registry of the state assets was clarified, the preparation, approval and control of the budgetary process were also discussed.

Although several amendments were made, this arrangement remained effective for more than 75 years and it influenced the modernization of the state accounting concept.

4.3. The Law on the Acceptance of the Latin Alphabet (1928)

As stated above, during the first years of the republican period, in terms of forming the roots of the modern concept of accounting, tax laws played a crucial role. It should also be stated that the revolution regarding the alphabet was vital to the implementation and expansion of the double-entry bookkeeping method that influenced accounting order (Official Gazette, 1928).

During the Ottoman era Arabic letters were used in the written language, which was written from right to left. This was causing difficulties in the registration of entries and preparation of financial statements. A certain number of books explaining the double-entry method were translated into Turkish during the second half of the 19th century and the first 25 year period of the 20th century. In those books, accounts were normally shown on the right side of the book. On the other hand, since in the case of daily entries the account name was written from right to left, the amount of the account could not be entered on the same row. This was the case both in the book of first entry and the ledger. When the account name shifted to the second row, the amount of the related account could not be shown on the same row.

During that time Turkish accounting intellectuals started to write their own books explaining the double-entry method. In order to eliminate difficulties that arose from the direction of writing, while authors of the books were shifting the columns to the left, they also changed the debit and credit sides on the accounts. According to this method, on the balance sheet assets were stated on the right side and liabilities were specified on the left side. This application in accounting caused complications and troubles in both education and the implementation of the double-entry method within the country.

Since people started to write from left to right with the acceptance of the Latin alphabet in 1928, it was seen that there was an abrupt and widespread increase in the use of the double-entry bookkeeping method. After the revolution, it was easier and faster to promote the education of the new method. Moreover, it can be stated that the ongoing spread of the new accounting system continued its influence within the country.

5. CONCLUSION

Even considering the modernization movement and legal arrangements that supported development during the first years of the republic, direct regulations regarding the accounting implementation did not exist. The uniform chart of accounts was not emphasized, there were no works on the preparation of sound financial statements and the application of the accounting standards were not taken into consideration. Legal arrangement that were made related to the accounting implementations in general were limited to the definition of the books kept and the formation of one financial statement (balance sheet) within the Turkish Commerce Code. Besides that, since each tax code had the tendency to set an accounting order among businesses by bringing specific provisions, coordination among regulations could not be attained.

When we consider the general situation, it can be determined that a crucial number of businesses established a dual accounting order to satisfy the legal arrangements made. Provisions related to the accounting order in the Commerce Code were also accepted in the application of the Profit Tax Code. On the other hand, since taxpayers liable to consumption and transaction taxes were subject to profit tax, each tax payer had to form a dual accounting system that complied with both profit tax, and consumption/transaction tax. The two main reasons for this dilemma were the absence of a uniform chart of accounts and the lack of a tax procedures code that included provisions regarding accounting procedure.

This issue was also valid for the audit practices being applied in Turkey. Since both profit and transaction taxes were formed on the accrual base, not only did this case increase the importance of the accounting order among businesses, but also it emphasized the significance of audit practices in accounting. Both profit tax and transaction tax codes included provisions defining their own method of audit implementation. By executing the above mentioned laws, the state started to collect taxes that were based on calculations made according to data available in financial statements and business records. This development increased the significance of documentation, bookkeeping, trial balance, balance sheets and income statements. The widespread application of taxes also had a positive impact on the importance of accounting perception. Although this was the case, a suitable number of accountants who had proper accounting knowledge did not exist. Because of this, the state had to take the necessary step of allowing foreign nationals to work as accountants in certain positions.

Private sector accounting applications became important for the first time in the republican reform period. When we evaluate this issue, it can be stated that this fact relied on both tax laws including provisions regarding the accounting implementations and the law regulating the incentives given to industrial production. Certainly, while the private sector was forming the necessary accounting system, it was also planning to structure the cost and management accounting systems for its own needs.

One other notable issue during the period subject to analysis was the excess number of books kept for accounting reasons. The Commerce Code defined the book of first entry, inventory book, balance book and letter book as mandatory. Even though the Profit Tax Code did not bring into play any new books, it included provisions that addressed the issue in the Commerce Code. The Transaction Tax Code necessitated that four extra books should be kept by the taxpayers in addition to the ones described above. Moreover, the Consumption Tax Code also imposed another three books on the taxpayers, to cover its needs. When we consider the books which were determined by the mentioned tax laws, it can be stated that each book had the characteristics of a ledger account. This was basically the result of the absence of both a defined ledger and a uniform chart of accounts in the Commerce Code. It should also be stated at this point that the culture of keeping books for each ledger account, which were considered to be crucial, was linked to the Ottoman accounting regulations. While a ledger was defined as necessary in the Ottoman state accounting system, general books carrying characteristic of ledger accounts also existed. An example of this case could be the keeping of separate books for each region in which taxes were collected. One other issue that should be mentioned regarding the accounting order is the underdeveloped characteristic of the system that was defined in the legal arrangements that are subject to analysis in this paper. The asset and liability sides of the balance sheet were not divided into parts and explained in detail; a statement of profit and loss was not fully taken into consideration. Moreover, a trial balance was not considered and documents other than an invoice were not mentioned in these regulations.

Although these regulations did not fully cover all the accounting procedures, by starting the transition process they played a crucial role in the formation and development of the modern accounting concept in Turkey.

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