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# Inflation Accounting in Terms of Tax Legislation and Accounting Standards in Turkey*

Naim VAROL**

***ABSTRACT***

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

***Keywords:*** *Inflation Accounting, Tax Legislation, Financial Reporting*

***JEL Classification::*** *M40, M41*

## *Türkiye'de Vergi Mevzuatı Ve Muhasebe Standartları Açısından Enflasyon Muhasebesi*

***ÖZET***

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

***Anahtar Kelimeler:*** *Enflasyon Muhasebesi, Vergi Mevzuatı, Finansal Raporlama*

***JEL Sınıflandırması*** *M40, M41*

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** Assist. Prof., Kapadokya University, naim.varol@kapadokya.edu.tr, ORCID: 0000-0002-6040-2752,

## 1. INTRODUCTION

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

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

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

In recent years, it has been revealed in various research groups and academic studies that the inflation rate announced by the Turkish Statistical Institute does not match the market realities. Therefore, in this study, it has been shown that the conditions for starting the implementation specified in the legislation on inflation accounting should be rearranged, otherwise the financial statements cannot present the truth.

## 2. EFFECTS OF INFLATION ON FINANCIAL REPORTING

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

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

### 2.1. The Effects of Inflation on Balance Sheet

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

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

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

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

#### 2.1.1. The Effects of Inflation on Monetary Items

While monetary items' nominal values remain the same in the face of changes in the value of money, their purchasing power changes in the opposite direction according to price movements.

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

#### 2.1.2. The Effects of Inflation on Non-Monetary Items

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

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

Capital contained in the balance sheet suffers a rapid loss of its value in an inflationary environment. Financing costs of enterprises that enter the money markets as buyers due to the growing need for working capital are increasing as a result of rising interest rates. In addition, businesses with foreign resources gain an advantage in an inflationary environment. Since debts recorded in the balance sheets with the values expressing the purchasing power of the money on the debit date will be paid with their registered values when the payment date comes provide inflation earnings to the debtor companies. Entities should prefer long-term borrowing as much as possible to prevent the negative effects of inflation.

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

### 2.2. The Effects of Inflation on Income Statement

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

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

#### 2.2.1. The Effects of Inflation on Income Items

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

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

The effect of inflation on sales and the cost of sales changes the business concept of profit while making it difficult to maintain capital. The resulting fictitious profit causes additional taxation on the excess of the real profit, which means taxing the capital. Receiving tax on fictitious profit is wrong in business resources to be used in places, to make erroneous decisions regarding the future, and to turn to foreign resources due to taxation on capital Keleş, 2015: 45).

### 2.2.2. The Effects of Inflation on Cost Items

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

## 3. REGULATIONS WITH INFLATION ACCOUNTING IN TURKEY

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

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

### 3.1. TAS 29 Financial Reporting in Hyperinflationary

This Standard should be implemented to the fundamental financial tables of any enterprise that publishes in the monetary item of a hyperinflationary economy to make the financial information provided is meaningful.

Complete range at which hyperinflation is held to appear but permits assessment as to when re-preparing of financial tables becomes necessary isnot set up a The most important propery of the hyperinflation of the economic environment is that the total inflation range over three years is coming or exceeds, 100% (TAS 29, Paragraph: 2).

IAS 29 describes properties that may indicate that an economy is hyperinflationary. However, it concludes that it is a matter of judgement when restatement of financial statements becomes necessary. This property is very important for the study.

If a company operates in a hyperinflationary economy it should present financial tables according to the unit of measure which is current at the balance sheet date. It makes no difference whether they are based on a historical cost or a current cost method. (TAS 29, Paragraph: 8).The gain or loss on the net monetary position should be incorporated in net income and separately explained.

Monetary items are assets and liabilities whose value is measured and expressed in cash. They are not restated since they are prepared according to the monetary unit current at the reporting date. (TAS 29, Paragraph: 12). Non-monetary asset and liability items of financial tables are adjusted using the general price index.

Correcting differences of non-monetary assets, equity, comprehensive income statement items, and index-joined assets and liabilities may result in gains and losses in this net profit. Items recognized at the current cost are not restated because they are already expressed in terms of the measuring unit current at the balance sheet date. Statement of financial position items that are not valued based on current cost is adjusted following this standard (TAS 29, Paragraph: 29).

There may be differences between the carrying amounts of the assets and liabilities in the declaration of financial position and their taxable income in consequence of the correction of the financial tables according to this standard. In accounting for such differences, TAS 12 Income Taxes Standard is applied.

Cash flow statement is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents. It also assorts the analysis down to operating, investing, and financing activities. All items in the entity's cash flow statement are required to be reported in terms of the current measurement unit at the end of the reporting period (TAS 29, Paragraph: 33).

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

When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements in accordance with IAS 29, it should treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements (IAS 29, Paragraph: 38).

### 3.2. BOBI FRS Chapter 25 Financial Reporting in Hyperinflationary Economies

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

- Currency is a set of money that is generally used by the entities in a particular country in their transactions. It is defined as "Valid Currency" in TAS 29. The term "Currency Used by Weights" which is used predominantly in an economy has been introduced by BOBI FRS Chapter 25.
- The index to be used in inflation correction is explained in TAS 29 as a general price index showing changes in common buying power. In the BOBI FRS Chapter 25, it is stated that enterprises whose currency is mainly Turkish Lira must use the Domestic Producer Prices Index (D-PPI) calculated by the Turkish Statistical Institute for Turkey. A general price index that reflects changes in overall buying power is used by other entities.
- TAS 29 does not set up a complete rate at which hyperinflation is viewed to arise. It is a matter of judgment when restatement of financial tables following this Standard becomes necessary. When the change in the Domestic Producer Prices Index (DPPI) counted by the Turkish Statistical Institution is higher than 100% for the last three reporting periods and is higher than 10% in the current reporting period, entities using Turkish Lira as operational currency shall correct their financial tables for inflation. (BOBI FRS Chapter 25, Paragraph 25.2).
- The following explanation regarding Deferred Taxes in TAS 29 is considered sufficient: Adjusting the financial statements according to the standard may lead to deviations between the prevalent values of assets and liabilities of the balance sheet and their taxable income. Such deviations are recognized following TAS 12 Income Taxes.In BOBI FRS Chapter 25, Deferred Taxes and their calculation are explained in detail.
- According to TMS 29 when the period of high inflation ends the entity stops preparing and presenting its financial tables in conformity with this Standard. The term-end sums stated in terms of the current measurement unit of the previous reporting period are taken as the basis for the book values in the following financial statements.

If the firms whose functional currency is the Turkish Lira are not exposed both of the conditions stated in paragraph 25.2 shall stop the inflation accounting implementation. The functional currency of entities is not the Turkish Lira shall stop the inflation accounting application if the assessment of the currency as a hyperinflationary currency is no longer valid (BOBI FRS Chapter 25, Paragraph 25.25).

When the hyperinflation ends the values in the financial tables of the last reporting period corrected for inflation shall substitute for a basis for the carrying amounts in financial tables referring to the following reporting periods (BOBI FRS Chapter 25, Paragraph 25.26).

### 3.3. Inflation Accounting According to the Tax Legislation

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

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

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

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

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

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

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

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

- In-Law No. 5024, it is not specified in which financial statements the correction will be made. In the published communiqué, it is stipulated that only the balance sheets will be corrected. Therefore, inflation adjustment is insufficient in terms of tax legislation.

- Law No. 5024 imposes an obligation to apply inflation accounting to income and corporate taxpayers who determine their earnings based on a balance sheet. Accordingly, taxpayers who determine their earnings based on business accounts or simple methods and institutions that keep books based on balance sheets but are not income and corporate taxpayers will not apply inflation accounting. In this context, it can be said that there is an injustice or deficiency within the scope of Law No. 5024. Because while large companies can deduct their inflation losses from taxes, tradesmen continue to be crushed by inflation.

- There is no regulation regarding what to do in case the value found as a result of the corrections made following Law No. 5024 is higher than the current value in exchange. Presenting the asset with a value higher than the current value indicates that the financial statements are inflated.

- The law on inflation accounting was made to eliminate the effect of inflation only on non-monetary items. However, the monetary resources in the hands of the enterprise are also affected by inflation. But this situation has unfortunately been ignored.

- The inflation adjustment is compulsory at the end of the temporary tax periods. Making corrections during temporary tax periods brings additional burdens to both businesses and members of the profession. Inflation adjustment should be made at the end of the accounting period.

- Income and corporate taxpayers, who settle their earnings based on the balance sheet, oblige their financial tables to inflation correction if the increase in the price index is more than 100% in the last three fiscal terms, including the prevalent term, and more than 10% in the prevalent fiscal term. A prerequisite rate for the application of the inflation adjustment is kept high according to tax legislation. Therefore, this rate should be reconsidered and reduced to a reasonable level.

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

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

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

| DOMESTIC PRODUCER PRICES GENERAL INDEX BY YEARS | |
|---|---|
| **DATE** | **INFLATION RATE** |
| 31.12.2018 | 33,64% |
| 31.12.2019 | 7,36% |
| 31.12.2020 | 25,15% |
| **TOTAL** | **66,15%** |

Source: The Turkish Statistical Institution, 20.01.2021

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

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

Source: The Central Bank, 20.01.2021

When the tables are examined carefully it is seen that there is no parallel relation between inflation rate and changes in exchange rates through 2018 – 2020. In addition, the calculations made by academics and non-governmental organizations show that the inflation rate announced by the Turkish Statistical Institution does not reflect reality. However, economically, there must be a parallel relationship between the rate of inflation and the rate of change in exchange rates. Therefore, the rate declared by the Turkish Statistic Institution is not realistic.

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

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

## 4. CONCLUSION

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

- A prerequisite inflation rate for application of the inflation adjustment is kept high according to tax legislation and the accounting standards.
- The inflation adjustment is insufficient in terms of tax legislation due to only the balance sheet can be adjusted.

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

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

- After examining the legislation on inflation accounting in detail, a new legislation proposal in line with accounting standards,
- Demonstrating that the inflation rate announced by the Turkish Statistical Institute does not match the market realities.

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