

## **MULTI LEDGER PERIOD IN TURKISH ACCOUNTING HISTORY: 1926-1949<sup>(\*)</sup>**

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### **ABSTRACT**

According to the accounting historians, accounting practices have mediated mutual accounts, determination of the profit or loss and identification of assets and resources until the end of the XIX. century. However profit tax law and income tax law have begun to be implemented after the XIX. century. Thus the effects of taxation on accounting practices were observed. So thanks to these developments recording layout and unity of financial statements were provided. Furthermore these developments have supported the formation of a uniform accounting framework.

Approximately twenty-five years of the Republic in Turkey, 1923-1949 period has two important tax reforms. The first of these reforms was Transaction Tax Law in 1926 and Profit Tax Law in 1927. Second reform that was enacted in 1949 Income Tax Law, Corporate Tax Law and Tax Procedure Law. Apart from these, the effects of Turkish Commercial Law that was renovated in 1926 on accounting practices should also be noted.

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The order brought by Turkish Republic, on one hand was increasing the significance of accounting, balance sheet and profit-loss statements, on the other hand was rising the need of auditing for the accuracy of declared taxes. double entry bookkeeping's ledger system was taken part in the Commercial Law. However, this method wasn't sufficiently known and widely used. Thereby the legislator has chosen to put additional ledger to each tax laws for the control of applications. Therefore the implementation of additional ledger as well as ledger in Commercial Law has caused 7-8 book keeping for a business. Multi ledger period continued until 1949 Tax Reform.

1949 Tax Reform that is made by revising and renewing the contemporary taxation, has underlied the basis of tax practices throughout the XX. century. With the successful tax practices, accounting and accounting profession developments was achieved within the framework of tax laws.

**Keywords:** Turkish Accounting History, Multi Ledger Period, Bookkeeping Taxation, Double-Entry

**Jel code:** M41, K34

## **1. INTRODUCTION**

When The Turkish Republic was proclaimed (1923), remaining accounting culture from Ottoman Empire (1299-1922) was based on the statist approach. Because of undeveloped private sector, accounting was developed within the state accounting practices. With the trial of liberalization between 1879-1885, double-entry bookkeeping was adopted. Also chambers of commerce was established, private sector was organized and Hamidiye Trade School which makes business education at the udergraduate level was opened. However, this initiative has developed slowly and private sector accounting thought remained in the shadow of state accounting.

Ottoman Empire's financial organization and practices were continuing with the XIX. century tax system due to the consecutively wars experienced from the beginning of the XX. century [Balkan War (1912-1913); First World War (1914-1918); Turkish War of Independence (1919-1922)]. State's revenues was based on taxes by 10 per cent for agricultural products and wealth of animals which was called as *Tithe and Cattle (Asar-Agnam)Tax*. There were tax attempts from profit but weren't successful.

In the Ottoman Empire, there was Westernization movement which contains administrative and financial reforms. This movement started with the *Edict of Tanzimat (1839)*. Ministries were organising in the style of Western European countries. However, in social and commercial law, the Islamic rules (*Sharia*) were valid. Within the framework of Westernization in the Ottoman Empire, first commercial law was adopted in 1850. However, there was no opportunity for implementation. Because of Islamic rules in trading were dominant.

Turkish Republic (1923) was continuation of *Edict of Tanzimat (1839)* in terms of Westernization. Founders of Turkish Republic have formed the revolutionary laws in this direction. In this context, firstly two basic laws were enacted. These laws are:

- ***The Constitution of Republic (1924)***: It is also known as constitution of the Turkish Republic. It is a law that is based on secularism, pays regard to gender equality and accepts women's rights (Akın, 2006: 6).
- ***The Turkish Civil Law (1926)***: It was taken on October 4, 1926 from Swiss Civil Law. It is a law that regulates gender equality in the family, civil marriage and women's rights on profession acquisition. It has enabled the integration with Western Europe in areas such as family law, inheritance law (Yüksel, 2014: 176-177).

In Westernization process which started with the *Edict of Tanzimat (1839)*, transition to secular order is provided by these constitutions. In this context, the founders of the Turkish Republic

made an intensive effort to modernize financial organization and tax types between 1926-1930. Before the examination of performed efforts by legal regulations, it would be appropriate to semtinize the economic environment.

After the War of Independence, there were a poor, tired people and economy that failed to make production (Coşkun, 2003: 72). The founders of the Turkish Republic were forced to build an economy based on the economic aspects of statism and tended to establish state-owned enterprises in infrastructure, textiles, cement and mines investments. Railway and maritime lines companies were reorganized. Thus, the need of business trained personnel began to emerge. There were small businesses in the private sector due to insufficient capital accumulation. However, the state continued to support the private sector. In this environment, development of accounting thought had to be for government enterprise and small private enterprises (Semiz, 1996: 12). Accounting profession hadn't yet occurred. Accountants were trying to apply the double-entry bookkeeping. Uninterrupted period of decade wars had dispeopled the young, active and intellectuals population. Undoubtedly, there were business managers and accountants in this population. In such an environment, neither sufficient accounting knowledge, accounting profession nor organization of accounting profession could have been mentioned.

## **2. CHANGES IN TAX LIABILITY AFFECTING ACCOUNTING THOUGHT AND TURKISH COMMERCIAL LAWS**

### **2.1. Transition of Tax Burden from Agricultural Area to Industrial and Service Production Area**

According to the historians, the first tax application was implemented in time of Menes who was the first emperor of the Dynastic Period of Ancient Egypt (BC.3100-2686) (Andre,1978:7). Ancient Egypt becomes a culture in transition: during the Late Period payments for a whole range of transactions. That includes purchase, taxes and wages, continued to be in kind (Ezzamel and Hoskin, 2002: 357).

State accounting has developed in the Ottoman Empire. Small businesses in the private sector which maintain its existence with insufficient capital have kept simple accounting records. Collecting taxes on wealth of agricultural products and animal, performing the accounting applications in the place of state's income and expenditure records would result in the development of state accounting. Thanks to Turkish Republic, the wealth of agricultural products and animals were excluded from taxation. Thus, with being the taxpayer businesses which produces sugar, oil, salt, tobacco, soap etc. or import; accounting began to develop in recording order of business. This is crucial transformation in terms of taxation. Because *Tithe and Cattle (Asar-Agnam)Tax* that constitutes half of state revenues were abolished by one of the first law in 1925 (Pamuk, 2014: 176-177).

Therefore, instead of agricultural products and animals wealth, necessary arrangements for collecting taxes on production and sales of products which consumed by masses were made. These are:

Being taxpayer businesses which engage in commerce and produce goods and services like in the western companies and also having commercial laws like on western standards,

Legislating tax laws according to tax type to determine when, and how much tax to collect from taxpayers,

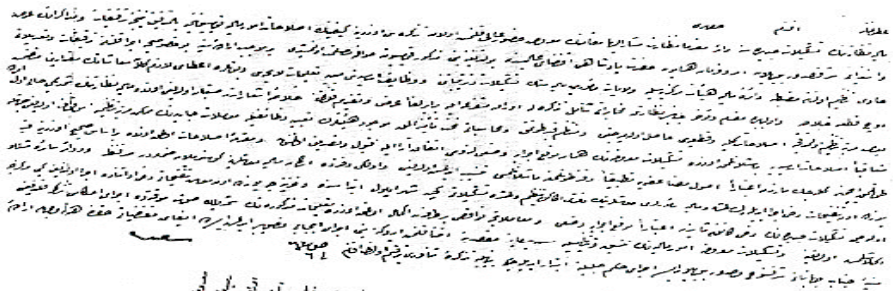
Calculating the tax base, accounting organization that provides recording order and hence accountants are needed.

The Young Turkish Republic has made the first two of them. Even, it agreed to collect taxes from companies on declaration of income. All these were developments that increase the need for accounting and accountants and increased the importance of tax control mechanism. However, it could not do anything more for the last arrangement that is related to the development of accounting profession and modernization of auditing function. Thus, assurance of taxation has become dependent on the state tax auditing rather than formation of high-quality accounting profession. Therefore state tax auditing dominated the accounting

application throughout the XX. century. Consequently instead of business-accounting togetherness, accounting-tax togetherness was emerged and developed.

## 2.2. Turkish Commercial Laws and Effects on Accounting Thought

After the *Edict of Tanzimat* (1839), Kanunname-i Ticaret which was entered into force, takes part in Westernization movements. In 1807 after the publication of Napoleon's famous Code de Commerce, this law has been taken by many countries in Europe. Meanwhile this law was adopted with the name of Kanunname-i Ticaret in the Ottoman Empire. Provisions of this law were collected in sets. The first set was related to the legal structure of trading companies. However this law didn't find opportunity to be applied in the trade except for a few foreign-owned companies. Because Islamic rules were valid. The second set was containing the ledger system of double-entry bookkeeping. This method hasn't been applied due to the fact that accountants haven't known it (Güvemli, 2000: 75-89). Because any book that introduces this method hadn't been translated yet. Also, any development didn't happen till the Ottoman Empire decided to pass double-entry bookkeeping in 1879.



Transition to Double-Entry Bookkeeping Decision in Ottoman Empire (1879)

The Young Turkish Republic enacted the *Kanun - i Ticaret* in 1926. This law was prepared to update *Kanunname-i Ticaret* which was adopted in 1850. According to this law, establishing company (such as joint-stock company, limited liability company) compliance with Western European commercial law, resolving the commercial disputes must be based on this law rules not on Islamic law.

According to provisions related to accounting in *Kanun-i Ticaret* (1926), journal and inventory book must be kept in double-entry bookkeeping. Further copy book must be kept. It provides document layout and record of commercial correspondence. However after a while as the document layout was formed with tax laws, this book has lost its importance and then it was removed from law. Ledgers has become imperative to keep. A number of provisions such as keeping the books, approving them by a notary, hiding periods which forms the layout of double-entry bookkeeping was taking part in this law. Moreover the books could be kept by an accountant. This law article was directly related to the birth of accounting profession. However it didn't become effective and didn't go beyond *clerk*. Consequently, the profession couldn't be organized.

1850, 1926 and then published with a modified version of the Turkish Commercial Law adopted in 1956 has been the basis of Turkish accounting application. Tax laws undertook to specify the procedures in detail. However, in 1926-1949 period, each tax laws have adopted to determine its accounting books itself. Much as this situation was reformed in 1949 Tax Reform, tax laws maintained its domination on accounting applications through the entire century.

Laws of commerce adopted in 1850, 1926 and 1956 have undertaken mission that provides the integration with Western Europe accounting thought. The new Turkish Commercial Law adopted in 2011 has turned the Turkish accounting thoughts to globalization by proposing international accounting and auditing standards for the agenda as Western European countries did.

### **3. THE FIRST TAX LAWS OF TURKISH REPUBLIC AND EFFECTS ON ACCOUNTING APPLICATIONS**

#### **3.1. Profit Tax Law and Accounting Applications**

Profit tax was implemented for the first time in 1799 in England in order to finance Napoleonic Wars (1799-1815). Followed by England, profit tax began to be implemented in Switzerland in 1840, Germany in 1891, United States in 1913 and France in 1914 (Turhan, 1982: 133).

The Profit Tax Law that adopted in 1926 in Turkey has been prepared influenced by Germany and France.

Profit Tax Law (26.02.1926 Date and Nr. 755) is the first Turkish Republic tax law affecting the accounting applications. This law is a pioneer in terms of linking the Republican period taxation and accounting applications. Important articles of Law are as follows:

*Article 1: Taxpayers has been introduced in this article.*

- *Commercial and industrial companies,*
- *Service businesses,*
- *Self-employed pay taxes on earnings at the rate of 11 percent.*

In Turkey, collecting taxes on profit by keeping book on the basis of balance sheet has first emerged with this law.

*Article 6: Industry, trade and sevice taxpayers declare their earnings with an annual return and pay taxes on this earnings.*

Before entering into force of this article, tax for paying in that year was announced to taxpayer at the begining of the year and accrued tax was called in the year. So that, the declaration of earnings and paying taxes on declaration was provided with this article. By this means, the importance of recording order has increased. Because book records was taken as basis for declaration. Hence the importance of accountants have emerged. However increasing the quality of accountants, the



development of accounting profession and organization have been neglected. Auditing of accounting books which requires authentication of declaration accuracy has come to the fore. In this context, the state concentrated on auditing. This situation has caused business owners to face state control mechanism. Thus it has paved the way for shadow economy. Because instead of qualified accountants, fear of state audit body has become dominant in conducting of business accounting.

*Article 12 and 13:* The first of these articles was related to the determination of the regulatory principles for end of period balance sheet. The conceptual nature of assets and liabilities was revealed. Features of assets and liabilities were stated. It was emphasized that profit is positive difference between the beginning period of shareholder's equity and ending shareholder's equity.

In Article 13 was related to the regulation of the profit-loss account. It was revealed in detail that operating profit is calculated called as gross profit and which expenses can be deducted from profit. Thus profit for tax base was determined.

12th and 13th Articles of the law reveals the first financial statements concept in Turkey. Financial balance sheet (tax balance sheet) which was prepared in accordance with tax laws was given a place. In contrast, the concept of commercial balance sheet which prepared in accordance with generally accepted principles took place. However this concept wasn't developed and remained in theory. Because paying taxes and preparing the tax balance sheet were important. This was also valid in share transfer and sale. This situation has become important for quoting shares on the stock exchange towards the end of the century. The appearance of balance sheet that used in 1926 as follows:

دیونات		ارلنده قطع اولان پلانچو		موجودات و مطلوبات		۱۹۲۵ سنسی ۳۱ کانون	
		لرودی تورک لیراسی				لرودی تورک لیراسی	
سرمایه	۱۵۰۰۰۰	—		جزودان موجودی	۱۹۳۹۱۰	۶۷	
مکرر سیئورمه جیرک مطلق	۱۹۸۵۹	۹۰		اموال غیرموقوفه	۲۴۱۴۱	۸۶	
عنتل داتلر	۱۳۹۲۴	۶۴		وظف فراغ مقابلده اقرامات	۳۳۶۶۵	—	
پیشیا استیفا اولان قاضلر	۲۳۷۳	—		اسهام و محمولات اوزرنه اقرامات	۸۵۰۳	۱۶	
<b>حریق قسی احتیاط آقچاری</b>				باشقاردهکی مودوعات	۸۱۷۷۰	۷۸	
الوم سرمی سیئورمه لیر ایچون	۷۱۶۰۰	۱۳		عنتل مدیرلر و تحصیل تاشر ایدن اجوروات	۱۳۳۶۲	—	
دورست کسوه خسارات ایچون	۱۳۳۵۴	۶۸		سیئورمه قوبایلیری نزدنمکی معلوبات	۶۸۱۷۸	۷۷	
<b>حیات قسی احتیاط آقچاری</b>				المظانی تملیک ایلمن حیات سیئورمه قومیسیونلری	۱۸۸۱۳	۶۴	
احتیاط دانی	۹۵۲۸۶	۹۴		موبیله	۱	—	
دورست کسوه وقت تقصیباته واشترا بدلاته مخصوص احتیاط آقچاسی	۱۱۰۰	۶۱					
نظامنامه اساسی موجنبه احتیاط آقچاسی	۸۶۴۶	—					
ضرر احتیاطی	۳۰۰۰	—					
اموال مقوله وغیر مقوله کی نزل قیمت قارش احتیاط	۳۱۲۴۳	۱۹					
کار و ضرر حسابک بییه مطلق	۳۲۰۹۷	۳۹					
بسکون	۴۸۳۳۹۶	۸۸		بسکون	۴۸۳۳۹۶	۷۸	

*Sample of Balance Sheet (1926)*

Law Profit Tax’ articles accentuated thus far which are the pioneer of double-entry bookkeeping and keeping book on the basis of balance sheet were standard and universal provisions. However Article 15 revealed a non-standard applications which was about additional books not found in *Kanun-i Ticaret*.

*Article 15: Taxpayers keep the ledger except for books written in Commercial Law.*

- Instead of copy book in Commercial Law, they put the copies of typewriters and bind them at the end of year.
- Industrial, commercial companies, stock brokers, brokers and insurance agents keep earning transaction books. They record the amount of earnings from operations on the revenue side of this book while they record costs of transportation of goods, insurance and storage to the expenditure side of it. Agencies record the cost of carrying out their operations to the expenditure side of this book.

According to Article 15, insurance agency will keep five books. These are journal, ledger, inventory book, copy book and earning transaction book. The legislator put earning transaction book into laws to control the amount of earnings which took part in revenue side and obtained from each transaction. The appearance of some book samples that used in 1926 as follows:

مطلوب (كار)		ظرف و ضرر حسابی		ذمت ( ضرر )	
۷ مارت	قیردیم - ذرک اسقونطوسی	۷۰۰	۳ مارت	بعض مصارفه تأدیات	۱۰۰۰
» ۱۵	آلدیم فائض	۲۵۰۰	» ۵	یابدیم اسقونطو	۵۰۰
» ۲۲	قزاندیم اسقونطو	۱۵۰۰	» ۱۰	مغازه کراسی	۳۰۰۰
» ۳۱	امتعه تمتی	۱۲۰۰۰	» ۲۵	سیاحت مصرفی	۲۰۰۰
			» ۳۰	مأمور معاشی	۴۰۰۰
					۱۰۵۰۰
				جمع صافی	۶۲۰۰
		۱۶۷۰۰			۱۶۷۰۰

*Sample of Earning Transaction Book (1926)*

Balance sheet and profit-loss account show profit to be declared. In addition, journal and ledger informations include control information in that vein. This situation stems from not knowing the double-entry bookkeeping layout. Because for the first time taxes will be collected on profit which will be calculated based on double-entry bookkeeping.

صیرا نومروسو	دفتر کبیر صعدقمه سی	دفتر کبیر صعدقمه سی	معامله	غروش پاره	غروش پاره	غروش پاره
۱	۲۳	۱۷	۱۵ کانون نانی ۳۲۶ - قاصه سرمایه یه سرمایه اولهرق وضع ایدیلن	۱۰۰۰۰۰	۱۰۰۰۰۰۰	

*Sample of Journal (1926)*

مطلوب		قاصه		ذمت		قاصه	
تاریخ	معامله	تاریخ	معامله	تاریخ	معامله	تاریخ	معامله
		برآینق بکون	برکولک بکون	برآینق بکون	برکولک بکون		
		پاره غروش	پاره غروش	پاره غروش	پاره غروش		

*Sample of Ledger (1926)*

This law which must be complied by a wide masses of taxpayers remained as tax law in force until 1949 and the law has been amended many times (Üçüncü, 1943: 19). Profit Tax Law is grouped under three headings in 1949 Tax Reform. These are Corporate Tax Law, Income Tax Law and Tax Procedure Law. Tax Procedure Law has clarified the bookkeeping and document layout. Also this law has put an end multi-ledger applications by enabling the use of books in *Kanun-i Ticaret*. Turkish tax legislator has become experienced in intervening period. Thanks to this, this development can be interpreted that their trust in double-entry bookkeeping has increased.

### **3.2. Transaction Tax Law and Accounting Applications**

The rise in its primitive form of transaction tax goes back to the first era. In first era both the period of Sumerians and Babylonian, issues related to tax have been taken place in the Codes of Ur-Nammu, Lipit-istar, Eřnunna, Hammurabi, the Edict of Queda and Ammi-řaquad (Bilgiç, 1963: 107). Likewise transaction tax was collected with the name of “*centesima rerum venalium*” in the time of Emperor Ceasar Divi Filius Augustus (B.C. 63 - A.D. 14) in the Roman Empire, “*alcabala*” in medieval in Spain, “*siliquaticum*” in Byzantine Empire, “*bac*” in the Ottoman Empire. Modern transaction tax was implemented for the first time in 1916 in Germany as a consequence of World War I financial obligation. Followed by Germany, transaction tax began to be implemented in France in 1917, Italy in 1919, Belgium in 1921, Netherlands in 1933, England in 1940, Sweden and Switzerland in 1941(Turhan, 1982: 177).

The Transaction Tax Law that adopted in 1926 in Turkey has been prepared influenced by Germany and France.

Transaction Tax Law (21.05.1927 Date and Nr. 1039) is the second tax law of Turkish Republic affecting the accounting applications. Transaction tax is collected in due course of spending of income. This tax is collected on sales prices of goods and services at various stages from production to marketing. Tax auditing was organised with the law amendments in 1934. This law is pioneer of today’s *value added tax law*. Transaction Tax Law has survived in 1949 Tax Reform. The law has been amended and renovated many times. Important articles of the Law are as follows:

*Article 13: Manufaturing transcation tax base is the sale price of finished goods of industrial businesses engaged in manufacturing. The rate of tax is 10 per cent (increased to 12,5 in 1947).*

*Article 62: Banks and insurance companies are taxpayers. They pay transaction taxes on their transactions that they receive in cash or on account. The rate of tax is 2,5 per cent (increased to 5 per cent in 1942).*

*Article 23: Taxpayers notify tax declaration including the each month's sales type, quantity and sum to be paid to the tax office until 15th of next month.*

This articles represents a classic applications of value added tax. In addition to the books in the Turkish Commercial Law, four more books must be kept. Additional books are as follows (Güvemli, 2001: 132- 133):

1. Manufacturing Book: The quantity, type and price of purchased raw materials and supplies, the quantity, type production date of manufactured goods are recorded on it. The rest of raw materials and supplies, manufactured goods are determined at the en of the fiscal year,
2. Transaction Book: The quantity, type, price, invoice date and invoice number of sold goods are recorded on it.
3. Purchasing and Selling of Goods Book: Wholesalers record the quantity, types and prices of goods that they purchase and sell.
4. Sales Book: Wholesalers who sell goods to industrial businesses, record the quantity, types, prices invoice date and invoice number of sold goods.

Manufacturing book has remained long in practice. Other books maintained their existence until 1950s. Profit tax and transaction taxpayers in industry sector are responsible for seven books to keep. These are journal, inventory book, copy book, profit transaction tax book, manufacturing book and transaction book. Also wholesalers who are responsible for both of taxes, will keep the number of books.

*Article 36: Taxpayers who are responsible for transaction tax, will be audited by account experts or tax office at least once every year. So that their books will be controlled.*

This article is the first accounting audit article in Turkey. However audit profession is not well-organized as accounting profession. In this case, it is seen that the auditing is carried out by official in the tax office. The layout of recording and operations in transaction tax were frequently complained and simplification of recording layout was requested (Alaybek, 1939: 21). During the process of adoption of double-entry bookkeeping multi-ledger period was continued.

### **3.3. Internal Consumption Tax Law and Accounting Applications**

The rise in its primitive form of consumption tax goes back to the first era. The consumption tax was collected with the name of “*vecliliga*” in the Roman Empire, “*sin tax*” in the period of the Roman Catholic Church pastor Pope Leo X (1475-1521) in new era (Black-Ai, 2006: 133) “*zecriye*” in the Ottoman Empire. Modern consumption tax was implemented for the first time in 1566 in Netherlands in order to break the dominance of Spain in foreign trade and take place of it. Followed by Netherlands, consumption tax began to be implemented in England in 1767 and United States in 1791 (Musgrave-Musgrave, 1976: 228).

The Consumption Tax Law that adopted in 1930 in Turkey has been prepared influenced by Germany and France.

Internal Consumption Tax Law (12.06.1930 Date, Nr. 1718) is the third tax law of Turkish Republic affecting the accounting applications. In this period, consumption tax affecting the accounting applications has continued its existence from 1930 to 1950s as a tax which is collected on the sales of sugar factories, the importation of petroleum raw materials and derivatives. This law’s taxpayer are not responsible for transaction tax. But they pay profit taxes on their income. This tax has been combined with the transaction tax.

It was stated in Article 8 of the Law that taxpayers will keep warehouse, sales and invoice book in addition to books in commercial law. That is, three books should be kept addition to four books (journal,

inventory book, copy book and ledger book). Also if the earning transaction book is added, the number of books to be kept will be eight.

- Warehouse Book: The quantity and types of raw materials and manufactured goods which are put in and out, are recorded on it.
- Sales Book: The quantity types, price, invoice date and invoice number of goods such as sugar oil etc which are related to tax about production, storage and sales are recorded in detail on it.
- Invoice Book: The quantity types, price and amount of goods which are in the sell invoice are recorded on it. Declaration information about goods is displayed.

The information of sales book and invoice book are similar. But it is noteworthy that invoice book consists of writing the information of invoice. Warehouse book is classic warehouse book.

This book layout which was formed to facilitate the auditing by tax legislator, there are more repetitions than previous two laws. Moreover it comprises a meaningless and tiring accounting density.

### **3.4. The Environment of Enacted Tax Laws Between 1926 - 1930**

There has been a modernization in Turkish tax history between 1926-1949. Instead of collecting taxes on wealth of agricultural products and animals in the Ottoman Empire, production of industry, trade and service sectors taxation was introduced. However it is not possible to tell the same thing for accounting history. Additional books for controlling which are added to double-entry bookkeeping in *Kanun-i Ticaret* (1926) induces repeated recording and decelerate accounting layout. The main reason of this situation is that double-entry bookkeeping isn't sufficiently known. In addition, There was almost no auditing function of accounting records. Business owners haven't taken business education. Turkish Republic which was founded in such an environment, has made the following two improvements: It has



brought declaration procedure and contemporary tax laws that collect taxes on production and profit. These developments have increased the importance of business accounting. Namely, it was the first time that taxes on sales and profit in the accounting records were collected. Balance sheet and profit-loss statements began to be used in calculating of tax base. Double-entry bookkeeping has become important for the first time. However there wasn't sufficient number of accountants who know double-entry bookkeeping. Because it was used by a few businesses. Uninterrupted period of wars had dispeopled the qualified, active and intellectuals population. Here tax law were enacted in such an environment. There weren't qualified accountants and academicians who tell to tax legislator that tax laws can be implemented within the framework of double-entry bookkeeping. In this case, legislator has put additional books with the purpose of receiving control measures.

In the framework of conception as described above, two-way measures have been taken for being successful in applications when the tax laws enacted. The first measure is to train qualified managers and accountants. The other is audit organization as required by the declaration procedures. Thus, the experience between 1879-1885 (organizing the private sector and opening business school) was repeated. There have already been private sector organizations. All that's left is to accelerate business education. In this regard, There was only Istanbul High Economy and Trade School (Today's Marmara University- Faculty of Economics and Administrative Sciences). It was needed to increase the capacity of this school and to activate a secondary school. Resource wasn't allocated for this issue due to the fact that Turkish Republic's scarce resources was focused on secular education. In 1936, applications began to develop from another channel as a second school Istanbul University- Faculty of Economics. But it was late. Nevertheless it is observed that government focused on increasing the numbers of commercial high school in this period (Erol ve Atmaca, 2015: 88).

At this point, there has been a futile attempt on accounting education. This initiative was developed as follows: When the Turkish

Republic was founded, accounting education schools was linked to Republic of Turkey Ministry of National Education. The only educational institution at the undergraduate level which was established for business education in 1883 named *Istanbul Hamidiye Trade School* was also linked to Ministry of National Education. Just after the foundation of Turkish Republic while educational reform was being made, this school named as *Ulum-i Aliye-i Trade School* was linked to Ministry of Commerce (Güvemli, 2003: 195). The purpose of this is to work up a connection between chambers of commerce and school and to strengthen relations between graduates and businesses. Thus, accounting education enables businesses to have qualified accountants and accounting layout. In this way, accounting profession would develop within the framework of business administration (business-accounting association). This practice continued fourteen years. But development in association lasted and again the school was linked to Ministry of National Education. So accounting profession have experienced developments within the framework of tax laws not business need and tax-accounting association emerged. Hence a historic opportunity to increase the importance of accountants in Turkish accounting history was missed.

There was a way to take benefit from available accountants due to the fact that the development of business administration education has been underdeveloped in the first period of Turkish Republic. But developing the double-entry bookkeeping applications by gathering under a single roof that is, organizing and educating available accountants weren't tried.

The second way was to strengthen the auditing due to the transition to the declaration procedures. There were two ways to achieve. First way is to organize as Certified Public Accountants (CPA) and give them duty to audit the financial statements. But this way was actualised because of not training qualified accountants and not being organized with available accountants. Secondly establishing the audit

organization by benefiting from its own officials. State tried to do so. But there wasn't enough staff to audit accounting records. Because it was required to know both double-entry bookkeeping and auditing.

These disclosures indicates that there wasn't neither adequate number of qualified staff with knowledge of double-entry bookkeeping in private sector, nor in public sector while contemporary tax laws were prepared to enter into force successively between 1926-1930. In this case, the work to be done is translation of contemporary tax laws from Western European countries. State officials who adopted this to Turkey, put accounting books to each tax laws deems them appropriate for controlling. These officials didn't know sufficiently the double-entry bookkeeping book system in commercial law.

They put accounting books required for collecting taxes into the tax laws unsystematically. According to them, this book layout would facilitate the auditing. Also they put the principles of preparation of balancesheet and profit-loss statement to laws by benefiting from the books of accounting academicians. But the books that was put by them were more important. It is seen that auditing had been weak when the applications adopted. There wasn't state tax auditing organization. Accounting and auditing were weak. Much as it was attempted to establish auditing organization in tax offices in Istanbul and Izmir, It couldn't be more successful. The 1930s had passed.

Meanwhile, in 1930s, accounting academicians didn't write any book that explain multi ledger period. They were never interested in books that take part in tax laws. Also additional books in tax laws weren't included in accounting curriculum. At that time, academicians focused on double-entry bookkeeping. Because both the state-owned enterprises and private sector need qualified accountants who know double-entry bookkeeping.

It was understood that there have been made mistakes about double-entry bookkeeping in the foundation of Turkish Republic towards 1940s. On the other hand, lack of auditing for accounting

records and documents was began to feel itself. Firstly, the subjects in accounting book was changed. Accounting academicians have begun to pay more attention to cost accounting and auditing. Soon after these developments in academic world, additional books for facilitating the tax auditing in tax laws began to demonstrate its futility. Two great changes took place in the mid-1940s. One of these was to contemporise the tax laws by amending the multi ledger order. The second was to establish state auditing mechanism. It was needed due the fact that there wasn't enough emphasis on accounting education and accounting organization. State made the modern tax auditing organization real by establishing Account Experts Board in 1945. Tax laws were discussed in 1949 Tax Reform.

#### **4. TAX AUDITING & TAX REFORM IN 1940's AND THEIR EFFECTS ON ACCOUNTING APPLICATIONS**

Tax applications began to settle in 1940s. Then it headed to correct its mistakes and missing. But there wasn't any change in accounting applications. Izmir High Economy and Trade School was added in 1944 to the schools that train qualified accountants. Accountants and accounting profession were available but its title was still clerk. Also they weren't taking part in auditing mechanism because there wasn't a professional organization for accounting. On the other hand, any serious studies on uniform accounting plan wasn't started. In other words, the problems of accounting and its profession were preserving the situation in the first years of Turkish Republic. In the renewal process of contemporary taxation brought by Turkish Republic in 1940s, two initiatives were made. The first of these was the formation of tax auditing board in 1945. Secondly, the tax laws were renewed in 1949. Below both of successful initiatives were dwelled on the effects of them on accounting thoughts and applications.

##### ***a) Establishment of The Account Experts Board:***

The Account Experts Board which effective in tax auditing throughout the XX. century was founded in 1945 (Güvemli ve Şişman, 2010: 18). The reasons for establishing of auditing bodies are as follows:

- There is a need of experts who know the features of industry and trade for investigating the taxes based on declaration's accruacy.
- This experts must fulfill their duties impartial and fairly.
- The number of profit and transaction taxpayers is about 15000. It is expected to rise to thirty thousand. Accordingly, at least three hundred experts are needed.
- Linking account experts who work in tax office for ten years to independent board will be appropriate.

In the light of the informations mentioned above, establishing an organization which is compatible with modern auditing concept, are efforted. Thanks to this organization, it would be appropriate to mention about the successful auditing process during the XX. century.

***b) 1949 Tax Reform:***

1949 Tax Reform was a reform that put an end to multi ledger period in terms of accounting history. Also thanks to this reform, Profit Tax Law which was the one of enacted tax laws between 1926-1930, divided into three parts in terms of the taxation. Thus, the thought of taxation was modernized and profit tax was abolished in 1949. Income Tax Law, Corporate Tax Law and Tax Procedure Law were enacted. Tax Procedure Law regulated the keeping accounting books and recording procedures. So the pressure of each tax laws on enforcing its accounting books in practice has ended. Consumption Tax and Transaction Tax were combined and the numbers of additional books were reduced.

*1- The Income Tax Law's Preambles*

In the Income Tax Law's preambles which took part in the preparation of 1949 Tax Reform are given below (Türk Vergi Kanunları Gerekçeleri, 1987: 8-20):

- **Financial Preambles:** The State's expenditures are continuously increasing. So it is needed to increase income. Profit tax has run out of its time. It should leave its place to new laws that increase income. Foreign countries have already started to implement income tax. So we need to do so.
- **Social Preambles:** Income tax is a modern tax. It isn't just a law that increase the state's income. It can be evaluated as a tool for social justice. Because thanks to this law, it is possible to collect more tax on higher income and less tax on fewer income.
- **Economic Preambles:** Having wide application area, collecting taxes on individual's income and not reflecting in the prices of goods constitute the economic reasons.

Profit tax based on these preambles that enacted in 1949 has been implemented successfully throughout the XX. century. This tax was collected on declared income. So accounting applications weren't affected much. Corporation tax is the actual factor that affecting the accounting applications.

### *2- The Corporate Tax Law and Effects on Accounting Applications*

The Corporate Tax Law's preambles are given below (Türk Vergi Kanunları Gerekçeleri, 1988: 4-15):

- The Corporation Tax is related to taxation of the capital and capital's gain. Personal psychological factors aren't taken into account in corporations.
- Bookkeeping isn't generally mentioned in the income tax. But recording order, calculation of taxation on the profits based on record order are important for corporation tax.
- Compulsory accounting layout will provide businesses to pay attention to the cost accounting and get into hang of preparing

balance sheet and profit-loss statements. That is, there is a tax which paves the way for paying attention to accounting to meet their own needs.

Accordingly, taxation of capital gain and the taxable profit will be obtained from accounting records. Industrial, commercial and service capital companies are responsible for this law. It is an contemporary tax. It has been implemented as the income tax so far. Tax rate which is initially low, is still 20 per cent.

Tax Procedure Law and Income Tax Law have affected the Turkish accounting application, curriculum and ultimately accounting thoughts during the second half of the XX. century. Because these laws have helped to highlight the record order and the importance of balance sheet and profit-loss statements.

Tax Procedure Law and Corporate Tax Law have filled the gap in the form of tax-accounting association due to the fact that undeveloped accounting profession hasn't provide business-accounting association throughout the XX. century. This tax-accounting association has led the way to enact the uniform accounting plan in accordance with requirements of taxation towards the end of the XX. century. At the same time, accounting profession was organized under the patronage of Republic of Turkey Ministry of Finance. The Union of Chambers and Commodity Exchanges of Turkey which is the organizational structure of Turkish administration, has remained passive in the face of these developments. Business-accounting association wasn't achieved. This point is quite important. Because as described above, this association wasn't achieved in the foundation of Turkish Republic due to the fact that both businesses and accountants didn't have sufficient information. Liberal economic policies which were implemented after 1950, created one more opportunity.

*3- Tax Procedure Law and Effects on Accounting Applications*

This law has greatly affected the accounting applications. This law has given affect to the double-entry bookkeeping's book system which takes part in Turkish Commercial Law. It is law that determines the procedures. The Tax Procedure Law's preambles are given below (Türk Vergi Kanunları Gerekçeleri, 1988: 10-21):

*There are three ways for bookkeeping which take part in Commercial Law and Tax Law. These are:*

- *This must be kept in Commercial Law.*
- *A separate law must be legislated for bookkeeping compulsory.*
- *This must be kept in Tax Procedure Law.*

*It is thought to be appropriate for the third one.*

This opinion reflects the legislator's accounting thought. But this opinion is wrong. Because Turkish Commercial Law reveals the basics of the system. However Tax Procedure Law specifies the details of taxation applications. Since before a century (1850) legislator asserted this opinion, Turkish Commercial Laws would obligates the double-entry bookkeeping' book system. This situation wasn't still changed in 1949. This mentioned opinion can be seen excusable in that it is propounded at the end of the multi ledger period. Bookkeeping compulsory is addressed in Tax Procedure Law. Also it has more focused on accounting applications as outlined below:

*Merchants are divided into two parts. One of them whose sales are on specific level, keep books on the basis of balance sheet. Namely, they keep journal, ledger book, inventory book and perpare balance sheet and profit-loss statements. The others keep operating books and they record whole their income and expenditures on it.*



This is rather a recent application for a country where double-entry bookkeeping method was yet adapted. Besides, it couldn't be expected from a small business to keep whole books properly and prepare balance sheet and profit-loss statements at the end of the year. This has been implemented successfully for many years in Turkey. The most successful part of Tax Procedure Law has been the formation of accounting documents layout. The issue in the Law's preamble is as follows:

*Invoices, delivery notes(consignment document), receipts, payroll and information transfer are based on bookkeeping for taxpayers.*

This document layout has implemented successfully throughout the XX. century. Another important issue in the Law's preamble is valuation. Also cost calculation by obtaining from the accounting data which is necessary for business management, is important. This issue is as follows:

*The cost calculation in industry is important as valuation. The cost calculation consists of raw material and supplies cost, labour costs, general production costs and common expenditures.*

1949 Tax Reform consists of laws which makes the Turkish taxation convenient with the requirements of the era. During this modernization, it was contended with the book system in Turkish Commercial Law and businesses are classified as large-small. Thus, it has made double-entry bookkeeping enforceable. In addition, it is given importance to the cost accounting and document layout is achieved. This situation has affected the development of accounting thoughts throughout the XX. century. The most important of all, it has been caused accounting to adhere to taxation. The new Turkish Commercial Law which was enacted in 2011 has proposed the International Accounting and Auditing Standards for the agenda. Thus the globalization of Turkish accounting thought has been started to achieve.

## **5. RESULTS**

In Turkish accounting thought, the innovations arised with the Turkish Republic (1923) has commenced a new period. Instead of collecting taxes on wealth of agricultural products and animals in the Ottoman Empire, production of industry, trade and service sectors taxation was introduced. Taxes were being collected still from people. But it was collected on the property used by the same people, not their own production of goods. Thus it was achieved to provide modernization in the integration with Western Europe.

Along with this change, business management has become important. It has also increased the importance of accounting and accounting profession. Nevertheless, the initiatives for increasing the quality and quantity of accountants weren't made. Therefore accounting profession wasn't organized. Both the impact of this situation and the lack of sufficient extent for double-entry bookkeeping were caused to put noncontemporary additional books in contemporary tax laws. So multi ledger period was begun in Turkish accounting thought since 1926.

The inaccruacy of additional books for the purpose of controlling the tax laws which took part in Turkish Commercial Law besides written on it, was realized. The second preparation for major changes in taxation has begun in 1940s. Auditing of declaration procedures remained weak. For this reason, firstly Account Experts Board which will be effective throughout the XX. century, was established in 1945. Then, thanks to 1949 Tax Reform, Profit Tax Law was divided into three parts and multi ledger period was abolished. Moreover, Income Tax Law, Corporate Tax Law and Tax Procedure Law have experienced a successful period throughout the XX. century. Thanks to the successful taxation applications, accounting thought and applications have maintained their developments within the framework of tax laws.

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