

Assessing Inflation Accounting Practices in Türkiye: Structural Challenges and Strategic Proposals*

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ABSTRACT

This paper examines the impact of inflation on financial reporting and explores how inflation accounting can improve the reliability of financial statements. In high-inflation economies like Türkiye, inflation distorts financial information by affecting asset valuations, depreciation calculations, and tax assessments—ultimately leading to inaccurate analyses and suboptimal decisions. These distortions undermine transparency, comparability, and fiscal discipline. The paper identifies major challenges in inflation accounting, such as the failure to reflect fair values and improper cost allocation, and proposes practical remedies including price-index adjustments, asset revaluation, revised depreciation methods, and tax system reforms. Implementing these measures can help firms present more accurate, comparable, and decision-relevant financial information. Overall, the study underscores the critical role of inflation-adjusted accounting practices in ensuring financial clarity and supporting sound economic decision-making in inflationary contexts.

Keywords: *Inflation Accounting, Financial Reporting, Türkiye*

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Türkiye'de Enflasyon Muhasebesi Uygulamalarının Değerlendirilmesi: Yapısal Zorluklar ve Stratejik Öneriler*

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ÖZ

Bu çalışmada, enflasyonun finansal raporlama üzerindeki etkisi ve enflasyon muhasebesinin finansal tabloların güvenilirliğini nasıl artırabileceği araştırılmaktadır. Türkiye gibi yüksek enflasyonlu ekonomilerde enflasyon, varlık değerlemelerini, amortisman hesaplamalarını ve vergi değerlendirmelerini etkileyerek finansal bilgileri çarpıtmakta ve sonuç olarak hatalı analizlere ve optimum olmayan kararlara yol açmaktadır. Bu çarpıtmalar şeffaflığı, karşılaştırılabilirliği ve mali disiplini baltalamaktadır. Bu çalışma, adil değerlerin yansıtılmaması ve uygunsuz maliyet dağıtımı gibi enflasyon muhasebesindeki temel zorlukları belirlemekte ve fiyat endeksi ayarlamaları, varlık yeniden değerlemesi, revize edilmiş amortisman yöntemleri ve vergi sistemi reformları gibi pratik çözümler önermektedir. Bu önlemlerin uygulanması, firmaların daha doğru, karşılaştırılabilir ve karar alma açısından önemli finansal bilgiler sunmalarına yardımcı olabilir. Genel olarak çalışma, enflasyonist ortamlarda finansal netliği sağlamada ve daha güçlü ekonomik karar almayı desteklemede enflasyona uyarlanmış muhasebe uygulamalarının kritik rolünün altını çizmektedir.

Anahtar Kelimeler: Enflasyon Muhasebesi, Finansal Raporlama, Türkiye

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1. Introduction

Inflation not only disrupts macroeconomic stability but also imposes structural pressures on firms by weakening their financial resilience and competitive capacity (Esen and Akin, 2023; Esen et al., 2025). During such periods, inflation erodes fiscal discipline, introduces systemic challenges, and significantly influences both financial reporting and managerial decision-making processes (Aydın et al., 2017). Current accounting practices primarily rely on the monetary value at the date of transaction, and financial statements are typically prepared based on historical cost figures. However, in periods of unstable price movements, such an approach may fall short of presenting meaningful information. To fulfil their intended purpose, financial statements must be adjusted to reflect the effects of price level changes during such times (Özdemir, 2023). In periods of high inflation, financial statements expressed in the currency of a highly inflationary economy may fail to accurately reflect a company's actual financial position and performance outcomes (Varol, 2022). In particular, inflation can cause significant damage to the accuracy, fairness and comparability of financial statements and render accounting systems dysfunctional (Köroğlu and Uçma, 2005). In highly inflationary environments, accounting practices based on the historical cost principle can lead to problems such as the book values of assets not reflecting current market values, deviations in depreciation calculations and unrealistic increases in nominal profits (Moyer et al., 2012; Epstein and Jermakowicz, 2010). Reporting based on historical cost undermines the reliability of financial statements, as the values presented may no longer reflect current economic conditions (Olarewaju et al., 2020). This situation causes misleading profitability images in the financial statements of enterprises and excessive taxation; it also undermines investor confidence and negatively affects financial decision-making processes (Zamel et al., 2020; Finrota, 2024). In addition, the erosion of the real value of monetary items (cash, receivables, payables) due to inflation and the reporting of non-monetary items (fixed assets, inventories) far from their real values reduce the meaningfulness of balance sheet and income statement analyses (Reyhan, 2025; Penman, 2012; Varol, 2022). In this context, inflation accounting practices stand out as an indispensable tool that enables financial statements to reflect the true financial situations of enterprises and contributes to stakeholders making healthier decisions by adjusting them according to price movements (Epstein and Jermakowicz, 2010; Wolk et al., 2016; INAA, 2023; CFI, 2024).

The need to eliminate the destructive effects of inflation on financial reporting has increased the demand for new accounting regulations and alternative approaches in accounting practices; in this context, inflation accounting has become a fundamental tool for companies to present their financial statements more accurately. Inflation accounting is an accounting practice that aims to reveal the true financial condition of a company by reflecting changes in the general price level in the financial statements (Köroğlu and Uçma, 2005; Finrota, 2024). In this system, financial statements are adjusted for the impact of inflation through processes such as revaluation of non-monetary assets, updating depreciation, and evaluating income statement items in real terms (Epstein and Jermakowicz, 2010; Wolk et al., 2016; CFI, 2024). Thus, elements of businesses such as profitability, asset structure, and

equity are reported in a manner that is more consistent with economic reality, providing more meaningful information for investors and stakeholders (Mullane, 2023; INAA, 2023).

Although inflation accounting provides several benefits in enhancing the accuracy and relevance of financial statements, both academic literature and practical implementation reveal that it also entails significant limitations. Inflation accounting differentiates between monetary and non-monetary items, based on their sensitivity to changes in purchasing power. While monetary items (e.g., cash, receivables, payables) retain their nominal value and are not adjusted, non-monetary items (such as property, equipment, and inventories) are indexed to reflect cumulative inflation since acquisition, allowing their book values to approximate real economic value. Moreover, inflation accounting recognises purchasing power gains or losses on net monetary positions, recording a gain for net debtors and a loss for net creditors during inflationary periods, with the reverse effect occurring under deflation. However, despite these theoretical adjustments, inflation accounting assumes that the real value of non-monetary assets remains stable over time, which may not hold true in volatile or structurally shifting economies. Additionally, the model relies heavily on general price indices, which may not capture firm-specific or sector-specific inflationary pressures, potentially distorting asset valuations. These limitations—such as the potential mismatch between real asset values and general indices, or the overly simplified treatment of monetary gains and losses—are often cited among the fundamental shortcomings of inflation accounting systems like general price-level adjusted accounting (Ball, 2024).

The development of inflation accounting in Türkiye has been closely related to the country's chronic inflation problems. Inflation accounting practices in Türkiye have historical roots dating back to the 1950s, and various regulatory guidelines have been issued over the years to govern their application (Özdemir, 2023). With the amendment made to the Tax Procedure Law with Law No. 5024, which entered into force in 2003, inflation adjustment became a legal obligation; this regulation aimed to correct financial statements in inflationary environments (Ünlü, 2003). However, with relative stability achieved in inflation rates in 2004, this practice was effectively discontinued. After a long hiatus, with the CPI (consumer price index) reaching high levels after 2021 and increasing deterioration in financial statements, the Revenue Administration brought forward regulations regarding inflation accounting in 2023, and it was decided that the practice would come into force again as of the beginning of 2024 (TÜRMOB, 2024). In this process, it was aimed to switch to practices compatible with Turkish Financial Reporting Standards (TFRS) within the framework of International Financial Reporting Standards (IFRS); Thus, This aimed to ensure both financial discipline in Türkiye and greater credibility in the eyes of international investors (INAA, 2023; KGK, 2017; TCMB, 2023). In addition, the Public Oversight, Accounting and Auditing Standards Authority (KGK), which is responsible for setting accounting and auditing standards as well as authorising and registering auditors and audit firms, has issued both TAS 29 Financial Reporting in High Inflation Economies and Section 25 Financial Reporting in High Inflation Economies of the Financial Reporting Standard for Large and Medium-

Sized Enterprises (BOBİ FRS) (Vergiport, 2023). BOBİ FRS provides a financial reporting framework for entities that are subject to independent audit but are not required to apply Turkish Financial Reporting Standards (TFRS). Its primary objective is to ensure that users of financial statements receive fair, relevant, and comparable financial information (Varol, 2022).

In today's volatile economic climate, the impact of inflation on businesses' financial reporting processes is becoming increasingly important. This study focuses on inflation accounting applied in high inflation environments in Türkiye and aims to identify the main problems encountered in current practices and to develop solutions to these problems. Especially in periods when financial statements diverge from reality, depreciation calculations become misleading, and taxation deviates from the principle of fairness, inflation accounting becomes a critical tool for businesses to accurately present their financial positions. In this context, the study examines the shortcomings in practice within an analytical framework, taking into account both the theoretical foundation and current legislation in Türkiye, and proposes alternative solutions. In this context, by examining the resurgence of inflation accounting practices in Türkiye in light of current data, the study is expected to provide a guiding framework for practitioners and policymakers, thereby contributing significantly to the literature in this field.

From this point, this study addresses the following research question: How can inflation accounting be implemented in Türkiye to: (i) improve the usefulness and comparability of financial statements for decision-making under high inflation; and (ii) reduce recurring implementation problems related to measurement, depreciation and taxation? To answer this question, the study examines the Turkish and international literature on inflation accounting, together with the existing regulatory framework (TAS 29, BOBİ FRS Section 25, and the Tax Procedure Law), and develops problem-solution mappings that can be applied directly by practitioners and policymakers. The study's original contribution is twofold. Firstly, it maps Türkiye-specific implementation issues (such as index selection, valuation, dual reporting structures and tax interactions) within an integrated framework alongside standard-setting regulations. Secondly, it provides concise, practical solutions that can be implemented, particularly by SMEs, without increasing reporting complexity.

This study is based on a qualitative analytical research design. This includes: (i) a structured narrative review of the academic and professional literature on inflation-adjusted financial reporting, (ii) a comparative regulatory review of the relevant provisions and circulars under IAS 29, IFRS Section 25, and the Tax Procedure Law, (iii) an interpretive problem analysis that relates observed implementation problems to reporting mechanisms (e.g. monetary/non-monetary item distinction, indexation, depreciation bases, and tax interactions).

The study focuses on repeatable reasoning rather than empirical testing at firm level. Accordingly, each proposed solution is explicitly linked to the relevant implementation problem and the corresponding accounting standard or legal regulation.

The remainder of this paper is organised as follows: Section 2 provides a comprehensive review of the relevant literature on inflation accounting. Section 3 discusses the current challenges and shortcomings associated with the implementation of inflation accounting in Türkiye and presents potential solutions. Finally, Section 4 offers concluding remarks and overall evaluations.

2. Literature review

2.1. Conceptual and theoretical background

Inflation accounting is based on the premise that financial statements prepared using the historical cost method may lose their informational value for decision-making in the face of rapid changes in the general price level (Kennedy, 1978; Whittington, 1987; Tweedie and Whittington, 2009; Arsoy and Guçenme, 2009). In high-inflation environments, financial statements based on historical costs can produce misleading signals about profitability, asset value, and capital structure, weakening comparability and the reliability of financial information (IFRS, 2021; Nobes and Parker, 2002; Stojanova et al., 2022; Hussein et al., 2024).

The fundamental principle of inflation accounting under IAS/TMS 29 is to ensure that financial statements are presented in the applicable unit of measurement at the end of the reporting period. Three key mechanisms stand out in this context (IFRS, 2021; KGK, 2018; KGM, 2024; Nobes and Parker, 2002): (i) separating monetary items (e.g. cash, receivables and payables) from non-monetary items (e.g. inventories, fixed assets and equity); (ii) adjusting non-monetary items and related income statement elements using the general price index; and (iii) accounting for gains or losses in the net monetary position to reflect the impact of inflation.

This approach assumes that inflation erodes the real value of net monetary assets, while the net monetary debt position provides an advantage in an inflationary environment (Chambers, 2020; IFRS, 2021; Whittington, 1987). Therefore, inflation accounting is not merely a technical adjustment process, but rather a comprehensive financial reporting strategy designed to mitigate the emergence of fictitious profits and to provide a more reliable basis for decisions regarding dividend distribution and taxation (Arsoy and Guçenme, 2009; Nam and Radulescu, 2004; Selimefendigil, 2023).

2.2. Literature Synthesis and Research Gap

While previous studies have widely documented that inflation accounting can improve the information content of financial statements and financial ratios, the literature also points to measurement inconsistencies, capacity constraints, and regulatory non-compliance that may undermine the intended benefits. Building on this foundation, the present study focuses on Türkiye's current re-implementation environment, establishing a structured link between (a) dominant Türkiye-specific frictions identified in the literature and practice and (b) viable, low-liability solutions that remain compliant with TAS 29/BOBİ FRS requirements and tax-related obligations.

In the literature, the contribution of inflation accounting to presenting a more accurate picture of companies' financial statements is frequently emphasised. For example, Hacırüstemoğlu (1992) states that financial information obtained through inflation accounting supports more rational investment, financing, and capital management decisions, while Kırkulak and Balsarı (1997) show that inflation adjustments enhance the predictive power of stock returns. Özulucan (2002) and Özkan (2005), meanwhile, argue that inflation accounting increases firms' capacity to produce reliable information and yields more meaningful results in terms of financial ratios. Karasioğlu and Erdemir (2005) highlight the importance of raising awareness among accounting professionals by explaining the implementation steps of this method. Similarly, İleri and Altınışık (2004) point out the costs associated with the application of inflation accounting, emphasising the need to reduce these costs and inform professionals adequately. In the same vein, the study by Akçay (2024) draws attention to the fact that, under Communiqué No. 555, inflation adjustments will be applied only to the balance sheet, focusing on non-monetary items, which will affect the tax base as of 2024. The study also warns that failure to implement inflation accounting may lead to taxation over fictitious profits, gradually eroding equity, thereby framing the issue not merely as a technical regulation but also as one critical to financial stability.

Additionally, Akyol (2023) underscores that despite some difficulties in updating the balance sheet, these challenges can be overcome with infrastructural and educational support and highlights the usefulness of inflation accounting during high inflation periods. Yenisu (2022) emphasises that the practice should be continuously embedded in the routine accounting workflow, while Doğan (2023) stresses the importance of addressing knowledge gaps among practitioners and supporting both literature and professionals through training. Yaylalı (2025) finds that awareness and perception regarding inflation accounting have a significant and positive effect on knowledge levels. Say (2025) concludes that the application of inflation accounting enhances the accuracy of financial statements, enabling investors and financial decision-makers to make more informed evaluations.

Peker (2023) notes that using historical costs leads to misleading information, whereas applying general price-level accounting during high inflation yields more realistic outcomes. Akpınar et al. (2024) demonstrate that after inflation adjustment, many financial ratios change, reflecting a more accurate financial structure. Açık (2006) highlights that the application helps to reflect profit/loss figures more realistically but also suggests that regulations should be aligned with inflationary fluctuations.

Yıldız (2018) also argues that this method improves the quality of accounting information. However, some studies reveal that the expected effects of these applications have not materialised or that they have created new problems. For example, Bilici (2003) states that the impact of the measures on financial statements has remained limited; Çankaya and Dinç (2004) claim that the tax-oriented approach of Law No. 5024 undermines the main purpose of the application. Acar and Tugay (2005) argue that although the regulation contributes to business sustainability, it fails to achieve tax justice and introduces technical complexity. Karapınar and Ayanoğlu (2005) report that the regulation is

poorly understood and has increased the workload on professionals. Moreover, recent studies such as Arzova and Şahin (2022) point to regulatory deficiencies and lack of expertise, while Varol (2022) contends that the inflation accounting framework should be revised to ensure compatibility with accounting standards and views the inconsistency between TURKSTAT data and market realities as a structural issue. Anlı and Yaşar (2025) report that the current application imposes additional workload on both taxpayers and professionals and adversely affects commercial operations, recommending a simpler and more comprehensible system.

In summary, while the literature generally agrees that inflation accounting enhances the quality of financial statements and supports informed economic decision-making, it also reveals significant implementation challenges, measurement inconsistencies, and structural mismatches that require careful consideration.

3. Problems in Inflation Accounting in Türkiye and Possible Solutions

3.1. Problems in Inflation Accounting in Türkiye

While inflation accounting practices in Türkiye have been shaped by various regulations throughout history, it appears that some fundamental problems persist in practice. These deficiencies have both technical and structural dimensions, making it difficult to present financial statements in a truthful, reliable, and comparable manner. First, the inadequate reflection of periodic changes in financial statements is a significant problem in inflation accounting. In particular, failure to correctly determine or update the indices used in the revaluation of non-monetary assets prevents balance sheet items from reflecting economic reality (Koroğlu and Uçma, 2005). This leads to significant deviations in companies' financial statements and can mislead investors. Second, the use of different calculation methods makes it difficult to ensure uniformity in practice. While some businesses report monetary impacts in accordance with IAS 29, others comply with the Tax Procedure Law, creating inconsistency and uncertainty in practice. A lack of knowledge and a shortage of specialized personnel in accounting practices, particularly at the SME level, exacerbate this problem.

Another significant drawback is the difficulties encountered in valuing non-monetary assets. Methods used to revalue fixed assets or inventories based on current market conditions often rely on generalized assumptions that are inappropriate for the company's field of activity. This weakens the objectivity and accuracy of valuation results (Moyer et al., 2012). Furthermore, accounting units' inadequate understanding of the effects of inflation on businesses exacerbates implementation problems. In particular, the inadequate analysis of the indirect effects of inflation on financial statements (e.g., the real value of cash flows, the burden of debt, etc.) reduces the contribution of financial reporting to the decision-making process (Wolk et al., 2016; CFI, 2024).

Another notable problem is the misinterpretation of the impact of high inflation on company performance. Nominal profit increases in inflationary environments are perceived as real performance improvements, leading to incorrect profit distribution decisions, flawed taxation, and capital erosion (Epstein and Jermakowicz, 2010; Çelik, 2003; Altınışık, 2019). Finally, the high implementation costs and complexity of the system cause businesses to be wary of inflation accounting. Inadequacies in software infrastructure, the need for specialized personnel, and time costs are among the deterrent factors, especially for medium- and small-sized businesses.

- i. The main implementation challenges can be grouped as follows:
- ii. Index and measurement selection: Selecting and updating indices that appropriately reflect sectoral price dynamics and valuation principles.
- iii. Double frame inconsistency: Requirements that differ between TAS 29/BOBİ FRS and tax-focused rules, creating incomparable results.
- iv. Valuation of non-monetary items: Difficulties in realigning fixed assets and inventories when general indices differ from market or firm-specific conditions.
- v. Depreciation and profit measurement: Incorrect depreciation principles and nominal profit inflation lead to erroneous allocations and tax burdens.
- vi. Capacity and cost constraints: Limited technical capacity, software readiness, and training, particularly for SMEs.

3.2. Solution Proposals for the Problems in Inflation Accounting in Türkiye

Several holistic and applicable solutions have been developed to address the deficiencies identified in this section and increase the effectiveness of inflation accounting. These recommendations aim to improve both technical practices and enhance institutional capacity. First, more frequent updating of price index-based regulations and their sector-specific nature will reduce biases in the valuation of non-monetary assets. In this context, sector-specific versions of the indices published by the Turkish Statistical Institute (TÜİK) should be created, and public disclosure of these indices should be encouraged (TÜRMOB, 2024). Secondly, establishing a harmonized transition model between TAS 29 and VUK is crucial for ensuring uniformity in implementation. To this end, a guidance document prepared under the leadership of the Revenue Administration could clarify the technical questions of both financial advisors and businesses regarding implementation.

To strengthen the problem-solution link, each of the following proposals addresses one or more of the grouped frictions listed in Section 3.1. Specifically, index and measurement reforms aim to improve valuation reliability; harmonisation guidance aims to reduce inconsistencies between TAS 29 and VUK. Meanwhile, training and digital tools aim to alleviate SME capacity constraints, while actual profit-based tax regulations aim to limit fictitious profit taxation.

Regular training programs should be organized for accounting personnel to enhance their understanding of the effects of inflation on financial statements. In this context, online and in-person training content can be developed in collaboration with universities, professional chambers (e.g., TÜRMOB), and the Ministry of Finance. Alternative methods for revaluing non-monetary assets are also recommended. For example, by updating the depreciation basis for fixed assets not only with historical cost but also with revaluation coefficients, a more realistic representation of assets can be achieved (Reyhan, 2025; Wali et al., 2024).

Furthermore, real-based profit calculation methods should be encouraged to correct nominal profits resulting from high inflation. This can prevent businesses from distributing profits incorrectly and facing excessive tax burdens (Shoven and Bulow, 1976; Wali et al., 2024). Finally, strengthening technological infrastructure and developing government-supported accounting software to reduce costs will facilitate compliance with inflation accounting, particularly for SMEs. Such software can offer user-friendly solutions by automating processes such as index calculation, asset revaluation, and depreciation adjustments.

Conclusion

Inflation is a multidimensional problem that directly affects not only macroeconomic stability but also the financial structure and decision-making processes of enterprises at the micro level. Especially in high inflation environments, the ability of financial statements to reflect reality weakens; operating results, asset structures and financial performance of companies can be reported in a misleading manner. In this context, inflation accounting is critical for measuring monetary values in real terms, ensuring the comparability of financial statements, and enabling sound financial analysis.

This study focuses on inflation accounting in Türkiye, aiming to comprehensively analyse its historical development, legal framework, and the major problems encountered in practice. In particular, uncertainties in the valuation of non-monetary assets, deviations in depreciation calculations, a lack of standards across different accounting systems, and high implementation costs are among the fundamental problems hindering the institutionalization of inflation accounting in Türkiye. Furthermore, it has been determined that inflation creates unreal profits, leading to both erroneous profit distribution decisions and unfair taxation.

Based on these findings, the study proposes various solutions at both technical and structural levels. Among these recommendations, sector-specific updating of price indices, the creation of a harmonized transition model between the Turkish Financial Reporting Standards and the Tax Procedure Law, the training of accounting personnel, the promotion of real profit-based reporting methods, and the dissemination of low-cost technological solutions are particularly prominent. These recommendations directly impact not only the accounting processes of businesses but also broader economic objectives such as tax fairness, investment security, and financial stability.

In this context, three key recommendations can be offered to policymakers:

(i). Mandatory standardization should be ensured in inflation accounting practices, and this practice should be disseminated through simplified guides in collaboration with TÜRMOB, GİB, and TURKSTAT (Turkish Statistical Institute).

(ii). The technical adaptation process of SMEs and certified public accountants should be supported. To this end, publicly supported digital accounting tools should be developed, and training programs should be made mandatory.

(iii). The tax system should adopt a taxation approach based on real profits rather than nominal profits, thus adjusting the tax burden of businesses more closely to economic realities.

In conclusion, this study demonstrates that the effective implementation of inflation accounting in Türkiye will not only increase the accuracy of financial statements but also contribute to the establishment of macroeconomic confidence and sustainable economic management. In this context, inflation accounting is not merely a technical tool but also a strategic policy tool that serves to strengthen fiscal transparency and accountability.

Given the limitations of the study and the suggestions for future research, this study takes a qualitative analytical approach. It does not provide company-level empirical estimates of the effect of inflation adjustment on reported performance, tax burdens or market outcomes. Future research could build on the current framework by testing the proposed solutions using pre- and post-adjustment company financial statements, industry-level index alternatives and survey data on implementation costs and capacity constraints.

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