



CIRCULAR NO: 2023/208

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INFLATION ADJUSTMENT ROADMAP

1. Inflation Adjustment

In the general sense, inflation adjustment is the adjustment of financial statements that cannot represent the real case due to changes in the purchasing power of money to ensure they represent the real case. Accordingly, inflation adjustment is the procedure by which the Turkish lira value of non-monetary assets included in financial statements is elevated to their value as of the statement date. The adjustment is done by multiplying the quantities of non-monetary assets earmarked for inflation adjustment by the applicable adjustment coefficients.

As is known, as of December 31, 2021, the required conditions were satisfied, and the necessity for inflation adjustment became apparent. Nevertheless, through a regulatory change, the inflation adjustment was deferred until December 31, 2023.

Even though the Ministry of Treasury and Finance has released a draft implementation communiqué regarding this matter, the draft has not yet been officially ratified and published in the Official Gazette.

2. Years Requiring Inflation Adjustment

Starting December 31, 2023, non-monetary assets listed in the balance sheets will be subject to inflation adjustment. In 2024, an evaluation will be conducted to determine whether the criteria for inflation adjustment are satisfied for each provisional tax period.

The adjustment procedures will commence from the corresponding provisional tax period if the criteria are satisfied.

Taxpayers subject to special accounting periods will initiate the balance sheet adjustment in the fiscal year concluding in 2024. Therefore, taxpayers subject to special accounting periods will not be required to make such adjustments in 2023.

Taxpayers with a calendar year accounting period should initiate preparations to adjust their balance sheet items for the year 2023.

3. Deadline for Making Balance Sheet Adjustments for the Year 2023

The adjustments for the balance sheet dated December 31, 2023, can be carried out until April 30, 2024, which coincides with the deadline for submitting the 2023 corporate tax return. However, considering that the adjusted balance sheet also serves as the opening balance sheet for 2024, we advise each taxpayer to assess this situation according to their specific circumstances.

4. Balance Sheets to be Submitted to the Tax Office as an Annex to the 2023 Corporate Tax Return

Taxpayers will create their adjusted balance sheets as of December 31, 2023, after the preparation of their balance sheets for the fiscal year 2023. Therefore, taxpayers must submit two distinct balance sheets, the regular annual balance sheet and the adjusted balance sheet, as annexes to the 2023 corporate tax return submitted to the tax office.

5. Is There a Tax Implication Associated with the Adjustment of the Balance Sheet Dated December 31, 2023?

The adjustment of the December 31, 2023 balance sheet will not have any tax implications for the year 2023. Nevertheless, it is important to note that balance sheet adjustments made in 2024 will have tax implications.

6. What Should Be the Roadmap for Balance Sheet Adjustments as of December 31, 2023?

We want to point out that most of the workload associated with inflation adjustment falls on the accounting and IT departments. In this context, we suggest the following roadmap for handling the adjustment transactions before the conclusion of the 2023 fiscal year.

PHASE 1

Identification of non-monetary assets in the balance sheet.

PHASE 2

Identification of adjustment dates of non-monetary assets.

PHASE 3

Identification of adjustment amounts of non-monetary assets.

PHASE 4

Determination of adjusted values by multiplying the adjusted amounts of non-monetary assets with the adjustment coefficient.

PHASE 5

Establishment of the accounting records about the adjustment.

PHASE 6

Preparation of the adjusted balance sheet dated December 31, 2023, once the inflation accounting records are finalised.

7. Balance Sheet Accounts Subject to Inflation Adjustment

Starting December 31, 2023, non-monetary assets and liabilities in the balance sheet will be subject to inflation adjustment. Inflation adjustment will not apply to monetary assets (monetary assets and monetary funds). This is because the value of a monetary asset in the financial statement already represents its purchasing power as of the statement's date.

Balance Sheet Dated December 31, 2023	
Non-Monetary Current Assets	Non-Monetary Short + Long Term Foreign Liabilities
Non-Monetary Fixed Assets	Non-Monetary Equity

8. Non-Monetary Assets

If the draft communiqué remains unchanged, the non-monetary assets subject to adjustment will include the following.

Non-Monetary Assets ¹	
110	Temporarily held shares
150	Raw materials and supplies held within the enterprise for use in production or other activities
151	Finished goods in the production process that have not yet reached the finished goods stage but already include direct raw materials, direct labor, and general production expenses
152	Finished goods obtained at the end of production activities and ready for sale
153	Trade goods intended for sale without any modification and are put into operation for that purpose
157	Products, residues and scrap not included in any other category of stock items

¹ The economic assets listed are presented with their corresponding account codes in the "Uniform Chart of Accounts" for the convenience of professionals. Economic assets not included in this list shall be treated as the most closely related economic asset in the list in terms of their nature.

159	Advances provided for inventory items that are ordered for domestic or foreign purchases ²
170	Progress payment costs
180	Prepaid expenses for future periods, which should not be recognised as related expenses in the current period
240	Equity shares that do not meet the required minimum ownership percentages for the associates' capital shares account and are intended for long-term holding, as well as non-equity shares held for long-term purposes, legal obligations, or because they have lost their ability to be converted into cash
242	Equity shares or partnership shares acquired by the enterprise for direct or indirect participation in the management and policy-making of other entities
245	Capital shares of associates where the enterprise holds more than 50 per cent of the capital, voting rights, or the ability to elect the majority of the management, either directly or indirectly
250	All kinds of lands and plots owned by the enterprise
251	Infrastructure or installations, whether below or above the ground, that are built to support or enable the execution of various operations
252	Any buildings and their essential components
253	All kinds of machinery, plant and equipment used in the production process
254	All motor vehicles used in the operations of the enterprise
255	All kinds of office machinery, equipment used in conducting business operations, and tangible fixed assets like desks, chairs, cabinets, and furniture
257	Depreciation expense for depreciable economic assets within tangible fixed assets
258	Assets under construction, which will be transferred to the corresponding tangible fixed asset account upon completion, and involve expenditures for various materials, supplies, labour, and overhead costs
259	Advances provided for the acquisition of property, plant, and equipment, whether from domestic or foreign markets ³
260	Expenses related to specific legal rights obtained by payment, such as concessions, patents, licenses, trademarks, and titles, as well as the authorities granted by public entities in specific domains, including usage and benefits
261	Goodwill, which represents the positive variance between the cost invested in acquiring a business and the fair value of the net assets of that business
262	Expenses incurred for setting up a business, opening new branches, or expanding operations which are capitalised even though they do not result in tangible assets or value obtained in return
263	Expenses incurred and capitalised for the creation of new products and technologies, the development of existing ones, and similar purposes
264	Special costs incurred for the development of leased real estate or the continuous increase of its economic value
268	Depreciation expense for depreciable economic assets within intangible fixed assets
271	Exploration expenses related to work performed for exploration purposes
272	In open operations, costs associated with opening vertical, horizontal, and inclined passages, ducts, and similar works to expose the surface of the mine, gain access to underground mineral deposits, create continuous connections between the deposit and the surface until the entire mass is extracted, segment mineral deposits for production, and facilitate the movement of personnel and vehicles, ventilation, and ore transportation; in the context of petroleum operations, costs including those associated with well drilling, cleaning, deepening, or finalizing activities, comprising labour, fuel, repair and maintenance, transportation, supplies, materials, and other necessary expenses for preparation and development.
278	Depletion allowances allocated for assets within the specific depletion group
280	Prepaid expenses for future years, which should not be recognised as related expenses in the current period
294	Stocks and fixed assets slated for disposal that are no longer viable for utilisation and sale within the enterprise due to various reasons

² If the provided advance has a non-monetary nature, it is classified as a "non-monetary asset."

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340	Advances received in advance for future product deliveries and service performances related to sales ⁴
350	Progress payments received by enterprises engaged in long-term contracting work for the portions of work they have completed
380	Income received in advance for upcoming balance sheet periods, with a duration of less than one year
440	Advances collected by the enterprise for goods or services to be delivered after more than one year, as specified in the sales contract ⁵
480	Income received in advance for upcoming balance sheet periods, with a duration of more than one year

Equity Items

The following assets in the equity items shall also be considered non-monetary assets and subject to adjustment.

The following equity items shall be presented on the balance sheet at their adjusted values.

Equity Items Subject to Adjustment
Capital
Positive and negative variances resulting from capital adjustments
Share Premiums
Canceled Share Profits
Legal Reserves
Statutory Reserves
Extraordinary Reserves
Special Funds (fixed asset renewal funds established as per Articles 328 and 329 of Law No. 213; venture capital funds allocated as per Article 325/A of the same Law, funds established as per paragraphs 5/1-e, j, and k of Law No. 5520; provision accounts created as per Laws No. 6111, 6736, 7143 and 7440 to record assets not previously accounted for despite their presence in the enterprise; fund accounts established under additional Article 3 of Law No. 6491 on Technology Development Zones and Article 3 of Law No. 5746 on Supporting Research, Development, and Design Activities)

Assets originating from non-monetary sources like gold and real estate put into operation under the regulations of Provisional Articles 85, 90, and 93 of Law No. 193, Provisional Article 15 of Law No. 5520, and fund accounts established per Law No. 5811 on the Acquisition of Certain Assets into the Economy will also be categorised as non-monetary assets. They will be presented in the balance sheet at their adjusted values.

9. Identification of Adjustment Dates for Assets Subject to Adjustment

It is crucial to identify the adjustment dates for non-monetary assets to carry out the adjustment. In this context, the “Adjustment Date” to be used as the basis for non-monetary assets on the balance sheet shall be established as outlined below.

a) For securities and financial fixed assets valued at their purchase price: Date of Purchase

⁴ If the provided advance has a non-monetary nature, it is classified as a “non-monetary asset.”

⁵ If the provided advance has a non-monetary nature, it is classified as a “non-monetary asset.”

b) For elements included in the cost of raw materials and supplies, trade goods, semi-finished and finished goods stocks, elements constituting the cost of construction and repair works over the years, expenses for the future months and years, tangible fixed assets and the elements constituting these assets, intangible fixed assets and the elements constituting these assets, assets subject to extraordinary depletion and the elements constituting these assets, construction and repair progress payments over the years, rights and goodwill, special funds (such as fixed asset renewal fund), and profit reserves: Date of Registration in Books

(Non-monetary advances given or received in connection with these items shall be adjusted from the date of payment or receipt to the date of settlement)

c) For non-monetary deposits, guarantees and securities received, paid-in capital in cash, share premiums, share cancellation profits: Date of Collection

ç) For non-monetary deposits, guarantees and securities given: Date of Payment

d) For assets contributed as capital in kind: Date of Transfer of Ownership

e) For the capital increased through the capitalisation of profit reserves, accumulated earnings and net profit for the period: Date of Registration

f) For shares received in return for cash capital: Date of Payment

g) For shares received in return for capital in kind: Date of Transfer of Ownership of Assets Contributed as Capital

ğ) For shares received in return for dividends: Date of Registration of Subsidiary Company Capital

h) For non-monetary provisions: Dates Specified for the Related Economic Asset.

As is known, the last inflation adjustment was applied to the balance sheet items of 2004. In this instance, non-monetary assets dated between January 1, 2005, and December 31, 2023, included in the balance sheet dated December 31, 2023, will be subject to adjustment. Hence, we would like to remind you that the adjustment of balance sheet items will cover a maximum period of 18 years starting from the registration date.

10. Adjustment Coefficients

To calculate the adjustment coefficients accurately, the initial step involves correctly determining the dates for the adjustment. The adjustment coefficients will subsequently be calculated based on the D-PPI values. The balance sheet adjustment at the end of the 2023 fiscal year will be carried out by applying the adjustment coefficients, which will be calculated using the formula below. These coefficients will be derived from the D-PPI values, as reported monthly by the Turkish Statistical Institute for Türkiye.

$$\text{Adjustment Coefficient} = \frac{D - \text{PPI for the Month Corresponding to the Financial Statement}}{D - \text{PPI for the Month Including the Adjustment Date}}$$

11. Accounting Records

According to the current regulations, as of December 31, 2023, taxpayers must perform several vital financial tasks. These include finalising all inventory and valuation activities, completing end-of-period accounting records, creating reflection records, determining their taxable income, recording tax provisions, and closing income statement accounts. These actions are necessary to calculate the period's net profit (or net loss). The final balance sheet prepared in this manner will serve as the foundation for the balance sheet that must be included with the 2023 corporate tax return. Subsequently, the non-monetary assets listed in this balance sheet will undergo inflation adjustment, and the resulting variances will be documented in a distinct account called the inflation adjustment difference account, which is situated under the primary accounts of the associated assets (Inflation Adjustment Account No. 698). Once all the computations and entries are finalised, if Account No.698 has a debit balance, the balance will be transferred to the Retained Losses Account No.580; if it has a balance receivable, it will be transferred to Accumulated Earnings Account No.570. The profit resulting from inflation adjustment for the previous year will be exempt from taxation, and the loss incurred in the previous year will not be recognised as a loss. Following these entries, the balance sheet adjusted for inflation as of December 31, 2023, will be generated.

12. Accounting Department's Preparations for Inflation Adjustment

As stated in the roadmap, the initial step is identifying the non-monetary assets on the balance sheet. Subsequently, it is essential to ascertain the amounts and the corresponding dates for these assets earmarked for inflation adjustment. In light of this, we recommend promptly determining the **adjustment amounts and dates for the assets** outlined in Article 10 and beginning the necessary preparations to align the accounting programs with the forthcoming inflation adjustment.

Sincerely,

**DENGE İSTANBUL YEMİNLİ
MALİ MÜŞAVİRLİK A.Ş.**

(*) The remarks in our circulars are for information purposes only. We recommend that the opinion and support of a qualified counsellor be sought before taking final action on questionable matters. Our company shall not be held responsible for any damages to be incurred as a result of transactions to be made solely based on the statements in our circular.

(**) For opinions, criticism and questions about our circulars, don't hesitate to get in touch with our experts below.

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