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THE COMMUNIQUÉ ON THE FINANCIAL STATEMENTS TO BE TAKEN AS THE BASIS FOR COMPANIES APPLYING INFLATION ADJUSTMENT PUBLISHED

Through the "Communiqué on the Financial Statements to Be Taken As Basis in Companies Applying Inflation Adjustment" published in the Official Gazette no. 32577 of June 15, 2024, explanations were made on the determination of the financial statements to be taken as basis **by the general assembly and the governing body** regarding the inflation adjustment to be applied in the accounting periods in 2023 and thereafter.

As known, by the end of 2023, corporations drew up more than one financial statement including the following ones, and submitted/are submitting them to the relevant authorities:

- 1- Inflation-adjusted financial statements per the accounting standards set by the Public Oversight, Accounting and Auditing Standards Authority (POA)
- 2- Financial statements drawn up per the Tax Procedure Law
- 3- Inflation-adjusted financial statements per the Tax Procedure Law.

The fact that companies have drawn up more than one financial statement has created hesitation as to which of the above-mentioned financial statements will be the financial statement to be taken into consideration by the general assembly and the governing body for dividend distribution and capital increase. Under the Communiqué, the Ministry of Trade has exercised its authority under Article 210 of the Turkish Commercial Code to clarify which financial statements will be taken into account by the general assembly and governing bodies.

1. SCOPE OF THE COMMUNIQUÉ

The Communiqué applies to **the corporations the financial statements of which are subject to inflation adjustment and which are stipulated in the Turkish Commercial Code (TCC)** on the condition that the special regulations envisaged for the companies subject to the following laws remain reserved:

- The Banking Law No. 5411,
- The Insurance Law No. 5684,
- The Law No. 6361 on Leasing, Factoring, Financing and Savings Finance Companies,
- The Capital Market Law No. 6362,
- The Law No. 6493 on Payment and Securities Settlement Systems, Payment Services, and Electronic Money Institutions.

In this context, the Communiqué identifies the financial statements to be taken as a basis **by the general assembly and the governing body** for the inflation adjustment to be applied for the accounting periods beginning in 2023 and thereafter. The general assembly and governing body are defined as follows in the Communiqué.

General assembly: *The general assembly in joint stock, limited liability companies, partnerships limited by shares and cooperatives, and the shareholders' assembly in sole proprietorships and, where necessary, all shareholders*

Governing body: *Board of directors in joint stock companies and cooperatives, manager or managers in limited liability companies, manager in sole proprietorships and partnerships limited by shares*

2. FINANCIAL STATEMENTS TO BE TAKEN AS BASIS

a- **Financial Statements to be Taken into Account by Corporations Subject to the Public Oversight, Accounting and Auditing Standards Authority**

According to the TAS 1 standard, financial statements are a formalized presentation of an entity's financial position and financial performance. The purpose of financial statements is to provide information about an entity's financial position, financial performance, and cash flows in a manner that is useful to a broad range of users in making economic decisions. Financial statements also demonstrate the results of how managers use the resources entrusted to them. To achieve this objective, the financial statements present information about the following:

(a) Assets, (b) Liabilities, (c) Equity, (d) Income and expenses, including gains and losses, (e) Contributions by and distributions to partners in their capacity as owners, and (f) Cash flows. This information, together with other information in the notes to the financial statements, helps users of the financial statements to estimate the future cash flows of the entity and, in particular, the timing and certainty of those cash flows.

A complete set of financial statements consists of the following:

- (a) Statement of financial position at the end of the period,
- (b) Statement of profit or loss and other comprehensive income for the period,
- (c) Statement of changes in equity for the period,
- (d) Cash flow statement for the period,
- (e) Notes containing significant accounting policies and other explanatory information,
- (ea) Comparative information for the previous period as set out in paragraphs 38 and 38A; and
- (f) The statement of financial position at the beginning of the preceding period if the entity applies an accounting policy or makes a retrospective adjustment to financial statement items or reclassifies financial statement items per paragraphs 40A-40D.

Companies that are required to draw up their financial statements per **the accounting standards** identified by the Public Oversight, Accounting and Auditing Standards Authority (POA) shall be based on the **inflation-adjusted financial statements** drawn up per Article 88 of the Turkish Commercial Code.

Dividend distributions to be made in 2023 and the subsequent years by the companies as specified above shall be based on **the inflation-adjusted financial statements** drawn up per **the accounting standards** set by POA. However, the amount of dividend to be distributed shall not exceed the total amount of resources subject to dividend distribution in the inflation-adjusted financial statements per the provisions of the Tax Procedure Law.

b-Financial Statements to Be Taken Into Consideration by Corporations That Are Not Subject to the Public Oversight, Accounting and Auditing Standards Authority

For companies that are not subject to the accounting standards set by POA, the **financial statements for the fiscal year 2023 that have been subject to inflation adjustment** per Provisional Article 33 of the Tax Procedure Law and the provisions of the General Communiqué on the Tax Procedure Law (Serial No: 555) shall be taken **into consideration together with the financial statements that are not subject to inflation adjustment**. To this end;

i) **Inflation-adjusted financial statements** shall be taken as a basis for dividend distribution from free reserves and other distributable resources after deducting losses, capital increase and decrease, merger, demerger, change of type transactions, and determination of capital loss and insolvency,

ii) **Financial statements that are not subject to inflation adjustment** and which are based on net profit for the period per the law or the articles of association of the Company shall be taken as a basis for dividend and profit share distributions, allocation of reserves, payments to usufruct shareholders and calculations related to dividend advances distributed throughout the period.

In the companies covered by this provision, the amount of dividend to be distributed shall not exceed the total amount of resources subject to dividend distribution in the inflation-adjusted financial statements per the provisions of the Tax Procedure Law.

As for the fiscal periods following the 2023 fiscal period, the financial statements that are subjected to inflation adjustment as per the Tax Procedure Law shall be taken as a basis.

Per the provisions of the Tax Procedure Law, we would like to state that only the balance sheet is subject to inflation adjustment in 2023 and the subsequent years.

3. CAPITAL TO BE TAKEN AS BASIS

In the assessments to be made regarding the capital of the company, **the capital amount registered in the trade registry** shall be taken as basis.

Positive differences arising from inflation adjustment to the capital, positive differences related to other equity items and the portion of internal resources other than these exceeding the losses and negative differences, including losses arising from inflation adjustment, may be added to the capital as per Article 462 of the Turkish Commercial Code.

Negative capital adjustment differences arising from inflation adjustment and other negative differences arising from inflation adjustment **may be offset through capital decrease or with positive differences or other internal resources based on the decision to be rendered at the general assembly.**

For the capital increases to be realized in companies that are required to draw up their financial statements per the accounting standards set by POA, the **inflation-adjusted financial statements** drawn up as per Article 88 of the Turkish Commercial Code shall be taken as a basis, but the **amount of internal resources** to be added to the capital shall not exceed the total amount of internal resources that can be added to the capital in the inflation-adjusted financial statements as per the provisions of the Tax Procedure Law.

As for the decisions to be issued according to the provisions of the Communiqué, provisions of the relevant legislation regarding the tax obligations of the company and those who will receive a share of the profit shall remain reserved.

The Communiqué entered into force on June 15, 2024.

Sincerely,

DENGE İSTANBUL YEMİNLİ
MALİ MÜŞAVİRLİK A.Ş.

APPENDIX:

The Communiqué on the Financial Statements To Be Taken As Basis for of Companies Applying Inflation Adjustment

(*) The remarks in our circulars are for information purposes only. We recommend that the opinion and support of a qualified counselor 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, please contact our experts below.

Erkan YETKİNER
Certified Public Accountant
Forvis Mazars, Partner

Tufan SEVİM
Certified Public Accountant
Forvis Mazars, Partner