

A HISTORICAL OVERVIEW OF ACCOUNTING IN TURKEY

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Abstract

Objectives: *The purpose of this article was to review the historical evolution of accounting in the late Ottoman Empire and the modern Republic of Turkey.*

Prior Work: *This paper is trying to extant a research to observe the historical development of accounting practices in Turkey. During the analyses around 2 authors' books were related to this paper.*

Approach: *During the study it was focused to collect information observation through published academic books and articles.*

Results: *The empirical studies, evidence or experiences presented in the part of conclusion that the accounting system of Turkey have had a considerable development since the establishment of the Republic of Turkey (1923).*

Implications: *An overview of Turkish and global sources suggested the importance of the following themes: (a) immature capitalism and a strongly hierarchical monarchy in the Ottoman Empire retarded the development of modern accounting; and (b) maturing capital and integration with the global market, especially after the decline of the one-party state system, led to the adoption of modern accounting systems and standards in the Republic of Turkey.*

Value: *The historical overview thus provides an illustrative discussion of how and why Turkish accounting has evolved over the past years.*

Keywords: Accounting development; Turkey's accounting system; Accounting background in Turkey

JEL code: M41

1. Introduction

The history of accounting in Turkey is a study in change. The Ottoman Empire, the entity from which the Republic of Turkey emerged in 1923, employed accounting approaches and practices that were entirely alien from Western single- and double-entry book-keeping (Guvemli, 1995), and that were yet used across a substantial part of Europe due to the Ottoman conquests. Modern Turkey, on the other hand, has moved closer to the mainstream of international financial reporting standards (IFRS) (United Nations, 2008). The fact that the Ottoman Empire kept a vast number of records, many of which remain access to researchers of the Ottoman Archives in Istanbul, means that there is an opportunity to understand and reconstruct the evolution of Turkish accounting over a period of nearly eight centuries.

The purpose of this article is to offer a brief but useful outline of the evolution of accounting in Turkey, beginning in Ottoman times and moving forward to the present era of IFRS. In addition to its usefulness for historians and accountants who focus on Turkish studies, such an exercise is generally useful because it offers answers to the following kinds of questions:

- How does accounting develop in response to the specific needs and constraints of a state?
- In what manner does accounting assimilate influences while evolving into the service of a particular state?
- How do changes in the nature of commerce (for example, from agriculture to industrial manufacture and later services) impact the evolution of an accounting system?
- How do changes in political economy (in the case of Turkey, a transition from empire to democracy) impact the evolution of an accounting system?

In this manner, a study of the evolution of Turkish accounting can be used to illuminate problems of history while history can also be used as a theoretical prism through which to understand changes in accounting.

2. The Purposes of Accounting in the Ottoman Empire

The very word *accounting* has its primary meaning the dispensation of knowledge to a party with some authority over, and interest in, this

knowledge (Nikolai, Bazley, & Jones, 2009); the practice of accounting, then, implies some responsibility between the entity performing the accounting and the entity to which the accounting is made. What we know of the history of Western accounting is that such practices as double-entry book-keeping began as a necessary means of allowing merchants to understand their business and soon became a necessary means of communicating facts about that business to shareholders (Nikolai et al., 2009).

In the case of the Ottoman Empire, the needs of accounting were very different. While Western accounting was developing according to the needs of businesspeople and, subsequently, shareholders, the Ottoman Empire was arranged in a manner such that the state was itself the premier owner and business entity. In theory, the state's assets belonged to the Emperor, who then dispensed with these assets on the basis of state tradition, Islamic law, and expedience. Kia (2011) wrote of the Ottoman Emperor that

At the top of the power pyramid stood the sultan, an absolute divine-right monarch. Since in theory the sultan enjoyed absolute god-given authority to rule, his subjects considered him the sole source of legitimate power; he could, therefore, demand absolute obedience from them, including complete control over their lives and possessions. He owned all state lands and could dispose of them as he saw fit. (p. 36).

The Ottoman Empire's relationship to accounting has to be understood not only through the framework of the Emperor's absolute power but also as a reflection of the administrative needs of an expanding empire.

Ibn Khaldun, the 14th-century Muslim historian, wrote at a time during which the Ottoman Empire was steadily expanding across Asia Minor, taking land that formerly belonged to the Byzantine Empire. Ibn Khaldun referred to accounting as one of the three pillars of all Islamic states and stated that

Royal authority requires soldiers, money, and the means to communicate with those who are absent. The ruler, therefore, needs persons to help him in the matters concerned with "the sword", "the pen", and finances. Thus, the person who holds the office (of tax collections) has (a good) part of the royal authority for himself. (Ibn Khaldun, 2005, p. 199)

In Europe, this aspect of accounting was undoubtedly important for empires and smaller feudalistic states. However, Europe also supported a thriving ecosystem of private traders, and various conflicts between the monarchy and other stakeholders in the state had also rendered European kings less able to claim public wealth for themselves. Commons (2008) has

noted that, in Europe, “The collective bargaining over rents...transferred dominion from the will of the sovereign to the will of the tenant” (p. 220), a development that never took place, at least to the same extent, in the Ottoman Empire.

In the Ottoman Empire, the sovereignty of the Emperor remained stronger than that of any European potentate. There was no Magna Carta to force the Ottoman Emperor to share power or wealth with internal peers; after the 1517 conquest of present-day Saudi Arabia by Emperor Selim the Grim, the Ottoman Emperor also became the Caliph of Islam, concentrating in this one personage supreme secular and religious power (Kia, 2011).

The Ottoman Empire was a state in continuous expansion (it did not stop expanding from the end of the 13th century to 1683, when the Ottomans were repulsed from Vienna) as well as a state run by an absolute monarch who required not only a constant stream of revenue but also a relatively simple means of learning facts about these revenue (Guvemli, 2000). These facts required Ottoman accounting to serve a much simpler set of functions than did Western accounting. Ottoman accounting is best understood as a form of fulfilling the needs of what Ibn Khaldun (2005) referred to as “royal authority” (p. 199) rather than as the kind of data needed by merchants or shareholders. In considering the character of Ottoman accounting documents, then, these historical facts have to be borne in mind.

3. Some Ottoman Accounting Principles and Their Evolution

Numerous principles of Ottoman accounting have been identified and discussed by both Turkish and Western scholars. One such principle is that of the *merdiban*, or ladder, method of accounting reporting. The *merdiban* method was described in detail in a paper presented by Guvemli and Guvemli (2000). Guvemli and Guvemli pointed out that the *merdiban* method originated with the Abbasid Empire (750-1258) and was employed by the Ilkhanid Empire (1256-1335) before being adopted by the Ottoman Empire. The Ottomans had been vassals of the Ilkhanids, fellow Turks whose base of rule was in Persia, and most likely adapted numerous features of the Ilkhanid accounting system, which in turn had been influenced by the accounting system of the Abbasids.

Figure 1 is a reproduction of Guvemli and Guvemli’s (2000) transcription and translation of an actual *merdiban* document used by the Abbasids in the late 8th century:

A Record in the State Accountancy with Merdiban System used in Abbasids from 775 and 786

State _____ ¹		
Taxes in kind and cash and their places which come to the state treasury for every year in Harun al Rashid Era		
Drachma _____		
530.312.000		
Total _____ ³	Total _____ ²	
buying as goods	as cash	
5.706.000 Dinar	404.780.000 Drachma	
1 Dinar 22 Drachma		
125.532.000 Drachma		
A kinds _____ ⁴		
of Tax and names of provinces		
pomegranate _____ ⁷ and quince from Iran pomegranate quince 150.000 portion	Raisin _____ ⁵ from Eonadussam 300.000 Rittl	Honey _____ ⁵ from Hamadan and Bestaki 13.000 Rittl
from Rey pomegranate 1.000 portion	from Humus 1.000 Rahile	from Musul 20.000 Rittl
	from Iran 1.000 Rittl	from Isfahan 20.000 Rittl
		from Cilan 20.000 Rittl
Salt _____ ¹⁰ from Armenia	Wax _____ ⁹ from Isfahan 20.000 Rittl	Sugar _____ ⁸ from Ahvaz 30.000 Rittl
Plum _____ ¹³ from Rey 1.000 Rittl	Indian Cherry _____ ¹² from Iran 20.000 Rittl	Syrup _____ ¹¹ from Hamadan and Destebe 1.000 menn
Provisions _____ ¹⁶ from Sind with Kufe meter 1.000.000 vakir	Cummin _____ ¹⁵ from Kirman 100 Rittl	Persimmon _____ ¹⁴ from Kirman 20.000 Rittl

Figure 1. Merdiban Document. This transcription and translation of an early Abbasid example of *merdiban* accounting appeared in Guvemli and Guvemli (2000, p. 24).

The structure and purposes of the *merdiban* approach to accounting can be understood on the basis of what has already been explained about the Ottoman Empire. The *merdiban* in Figure 1 is a means of tabulating taxes received by the Abbasid Caliph Harun-Al-Rashid. A glance at this document reveals the entirety of tax revenue as well as the sources of components of this revenue. In this document, there is no concept (and no need) for debits and credits, since the Caliph/Emperor is incapable of being indebted; he collects, but never owes.

Merdiban accounting did not evolve much from its origins in the 8th century Abbasid state to its use in the Ottoman Empire from the late 13th century onwards. *Merdiban* documents could be more or less complicated based on how many kinds of taxes are being collected from how many tax-

paying entities, but in all cases were a form of imperial book-keeping that allowed absolute rulers to understand and document tax revenue in a relatively straightforward manner.

Another important feature of Ottoman accounting was *siyakat*. Faroqi (1999) described *siyakat* as follows:

This was used by the Ottoman financial administration down into and beyond the eighteenth century. Figures were written not in Arabic numerals but in graphemes derived from the same numbers written out in Arabic words...This script was used to keep the information contained in the relevant documents secret, besides strengthening group consciousness among the limited of scribes 'in the know. (p. 72).

In the West, the emergence of joint stock companies was a powerful motivation for accounting documents to demonstrate simplicity and transparency as early as the 16th century (Henriques, 2007). At that period of the Middle Ages, there was also significant pressure on Western monarchs to share power with aristocrats, ecclesiastics, and, in some cases, merchants (Meehan, 1993). Thus, there were significant motivations to adopt transparent accountant practices in the West; these motivations did not exist in the Ottoman Empire, in which the Emperor retained a much larger share of relative power in society (Kia, 2011; Shaw, 1976) and thus had the ability (and incentive) to keep accounting a largely secret process.

There are, of course, many important features of Ottoman accounting, given the vast geographic extent and six-century history of the empire. The *merdiban* method and *siyakat* are two of the most commonly-mentioned aspects of Ottoman accounting. Both *merdiban* and *siyakat* can be understood through the historical context of the Ottoman Empire, in which the sovereignty of the Emperor was significantly greater than that of European rulers and in which the flow of resources tended to be one way, from subjects to the state (personified by the Emperor).

4. The Evolution of Accounting in the Turkish Republic

The history of accounting in the Turkish Republic ought to be dated from 1839, when the Ottoman Empire underwent a sweeping series of reforms known as the Tanzimat. Although the Turkish Republic would not emerge for nearly another 90 years after the Tanzimat, the accounting reforms taken at that time were the harbingers of the development of accounting under the Turkish Republic.

➤ Double-Entry Accounting

In 1839, the Ottoman Empire abandoned its accounting system in favor of double-entry accounting (Guzel, Oguz, Karatay, & Ocak, 2002). There were numerous reasons for this decision. First, the Ottoman Empire had been in decline for decades; in 1683, the Ottomans had been repulsed from Vienna, and the 18th and 19th centuries saw a steady diminution in the territories controlled by the empire (Shaw, 1976). As the empire began to control its limitations, there was a consensus among the elites that the Ottoman system required a wide-ranging reform that would touch on matters of warfare, commerce, accounting, religion, administration, and culture; this reform was known as the Tanzimat. The adoption of double-entry book-keeping was thus in line with the Tanzimat's general spirit of identification and adoption of the best of Western practices.

However, the case can also be made that, by the 19th century, the Ottoman state was itself engaged in an increasing amount of international trade and was also home to numerous foreign merchants (for example, Greeks, Jews, and Armenians who lived in the foreign quarters of Istanbul) who would likely have employed double-entry book-keeping in their own private records. It is possible, then, that the adoption of double-entry book-keeping by the Ottomans in 1839 represented a combination of two-down pressure by a state that saw clear advantages in Western accounting methods and the bottom-up influence of commercial activity involving Western states.

➤ From the Early Republican Period to Globalization

The development of accounting principles in the era of the Turkish Republican (1923-) can be understood from various historical perspectives. One important point to which Aysan (2010) called attention was that there was no law to establish an accounting profession in Turkey until the remarkably late date of 1989. From 1923 onwards, there has been ongoing tension between Turkish accountants and Turkish lawyers; according to Aysan, lawyers have worked assiduously to prevent accountants from able to defend clients in court. These roots of this kind of inter-professional turf war can perhaps be traced to Ottoman traditions of strongly-defined professions. It is worth noting that the use of *siyakat* was at least partly a means of locking non-accountants out of the ability to handle, or even understand, accounts (Faroqhi, 1999). Aysan suggested that not only the institutional strength of lawyers but also the relative paucity of foreign trade allowed the Turkish state to ignore the statutory establishment of the accounting profession for a long time. While the Turkish state appeared to

be fairly progressive in adopting accounting standards (first from German and French influences and subsequently from Anglo-Saxon influences), the absence of an institutionally-supported accounting law slowed down the adoption and spread of accounting best practices in Turkey (Aysan, 2010).

According to Demirag (1995), the maturation of accounting in Turkey has been a function of the maturation of capitalism itself, particularly trade-oriented global capitalism:

Changes...brought industrial capital to the forefront of Turkish capitalism and marked the end of the brief period of the monopolistic use of state power by the alliance of commercial and agricultural capital, and prepared the necessary dominance of monopoly / industrial and financial capital. (p. 260).

As such, according to Demirag (1995), the adoption and standardization of accounting approaches in Turkey has been driven by considerations of the market more so than by state dictate. This point is particularly relevant when considering the Turkish experience with International Financial Reporting Standards (IFRS).

➤ **IFRS**

For Turkey, the adoption of IFRS has been driven by a number of interests. Initially, IFRS adoption was seen as a means of signaling that Turkey was ready to join the European Union (EU), of which it has been a candidate member for several years (OECD, 2006). Lately, after many Turks began to despair of being admitted into the EU, IFRS adoption began to be seen as a boon to Turkish business interests in an era of globalization and liberalization (Tiberghien, 2013). In recent years, Turkish economic growth has been extremely rapid, often second only to China (Pope & Pope, 2011). In this environment, Turkish businesses have proven to be increasingly important investment opportunities for individuals and organizations from all over the world. Thus, the adoption of IFRS is a means of ensuring Turkish competitiveness in a global investment landscape, given that so many investors are already familiar with IFRS.

The Turkish accounting system has only recently begun to abandon a rules-based accounting approach for the principle-based IFRS approach, and this transition has imposed a heavy burden on auditors, students, and businesses (OECD, 2006). As the OECD has pointed out, Turkey's accounting system was adopted from older European models and was reliant on rules; however, during the process of Turkish candidacy to the European Union, the country adopted IFRS. Turkey's recent adoption of IFRS has

resulted in a number of problems, including the failure of universities to graduate sufficient numbers of accounting trained in the new system and an over-reliance on foreign auditors (OECD, 2006). At the same time, Turkey's reliance on IFRS has been undermined by the somewhat capricious exercise of power by the government, which has imposed both fines and audits on political enemies (Psychogiopoulou, 2012). Thus, the best way to assess the Turkish accounting system vis-à-vis reliance on principles is as follows: The letter of the IFRS standard as adopted in Turkey is robust, but the environment in which auditing and enforcement takes place is occasionally poor.

Conclusion

The Republic of Turkey has undergone vast changes in its approach to accounting. The Ottoman Empire began with a system of accounting that had nothing in common with double-entry and other Western methods and ended with the adoption of double-entry, which it considered a best practice in accounting. Similarly, the history of accounting during the Turkish Republic has also been the history of a search for best practices tempered by numerous limitations in the readiness of companies and the audit abilities of the state and related organizations.

From 1839 onwards, it is clear that the Turks have been eager to identify and utilize the best forms of accounting, that is, the forms of accounting on which there is the broadest international consensus. This decision was motivated by the obvious decline of the Ottoman Empire and by the rise of commercial trade between the Turks and other nations. However, since the foundation of the Republic, there have been many problems that have prevented the Turkish state from taking full advantage of its decision to adopt international best practices in accounting.

During early Republican times, one of the problems was that the state's enthusiastic adoption of Western accounting methods was alien to private businesses in Turkey. To begin with, there was not much of a history of private business in the Ottoman Empire (Cizakca, 1996), and early Republican Turkey was not a truly free market society. The hand of the state was prominent in business, which made it relatively simple to impose specific accounting standards and approaches on government-owned or – controlled businesses, but which presented little incentive to private businesses to engage in the complex and costly endeavor of updating their own accounting systems.

It was not until the economic modernization of Turkey, a process that gained true momentum only under the regime of Turgut Ozal, that organic incentives for the general adoption of accounting standards emerged (Altug & Filiztekin, 2013). Turkish businesses saw, and actively benefited from, the opportunity to export to Europe and many other markets, and the expansion of wealth and credit within Turkey created a large important market (Altug & Filiztekin, 2013). In order to continue to benefit from Turkey's new economic role in the world, it is necessary for private businesses to embrace accounting best practices, which in recent years has meant IFRS. However, while there remains a powerful motivation to adopt IFRS, it remains the case that some audit mechanisms and assistance programs are underdeveloped. However, based on the trajectory of Turkish accounting history since 1839, it seems likely that Turkey will, sooner rather than later, close some of the gaps in its accounting competencies.

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