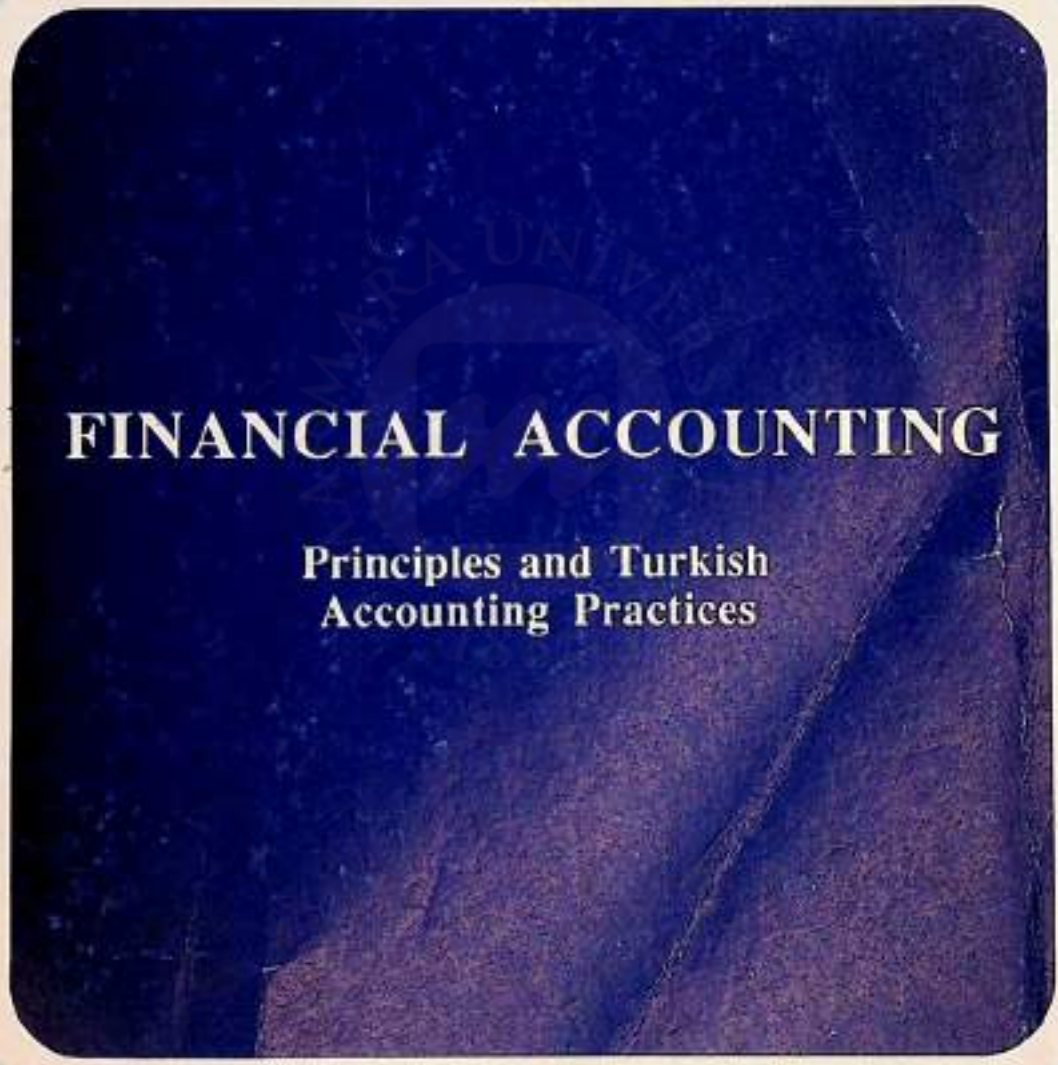
MARMARA ÜNİVERSİTESİ YAYINEVİ

Marmara Üniversitesi Yayınları No : 491
İktisadi ve İdari Bilimler Fakültesi Yayınları No : 387



FINANCIAL ACCOUNTING

Principles and Turkish Accounting Practices

Assoc. Prof. Dr. Uğur Günege

Marmara University
Faculty of Economic and Administrative Sciences

MARMARA ÜNİVERSİTESİ YAYINEVİ

Marmara Üniversitesi Yayınları No: 491
İktisadi ve İdari Bilimler Fakültesi Yayınları No: 387

FINANCIAL ACCOUNTING

Principles and Turkish Accounting Practices

Assoc. Prof. Dr. Uğur Günege

Marmara University
Faculty of Economic and Administrative Sciences

MARMARA ÜNİVERSİTESİ

Istanbul 1990

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

PREFACE

This book was undertaken with the aim of teaching financial accounting to students studying business administration and economics in English. Foreign sources were used in preparation of the book, and in order for the student to be informed of the accounting practices in Turkey and with the purpose of ensuring that they learn applications in Turkey concerning commercial law and tax codes, the Turkish sources to which I give much value have also not been neglected. Our students of the economics and administrative sciences studying in English are required to know the Turkish legislation concerning accounting applications used in Turkey. An important point to keep in mind is the fact that it may be advantageous to work personally on the applications and examples given in the book in order to comprehend them more fully.

The book is composed of four sections. The first section gives general accounting information and the second section was prepared with an emphasis on accounting processes, recording techniques and legislation. In the third section, asset and liability accounts have been explained in detail, and the processing for valuation, asset and liability accounts at the end of the fiscal year is explained. The fourth section is concerned with accounting practices used in commercial companies.

While I relay my most heartfelt gratitude to my honorable instructors, Prof.Dr. ORHAN OĞUZ, Rector of Marmara University and Prof.Dr. İSMAİL ÖZASLAN, Prof.Dr. KENAN ERKURAL, Prof.Dr. SAİT SEVGENER and Prof.Dr. A. HAYRİ DURMUŞ, I also relay my thanks to those working in the Printing Department of Faculty of Technical Education of Marmara University.

İstanbul, September 24, 1990 Assoc. Prof.Dr. UĞUR GÜNEGE

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ 1883

MARMARA
ÜNİVERSİTESİ

CONTENTS

MARMARA ÜNİVERSİTESİ YAYINEVİ

	Page
Preface	III
1. Introduction	1
10. Basic concepts and definitions	1
11. The functions of accounting	2
12. Generally accepted accounting principles	3
120 Basic accounting assumptions	4
121 Basic accounting doctrines	4
13. A Brief history of accounting	5
14. Business entities	6
140 Types of business entities	7
141 Types of companies under the Turkish Commercial Code	7
15. Business transactions	8
16. The basic financial statements	8
160 The balance sheet	9
161 The income statement	11
162 The statement of retained earnings	13
17. The fundamental balance sheet equation	13
170 The effects of transactions on the balance sheet equation	14
171 The expanded balance sheet equation	17
2. The accounting process	19
20. The accounting cycle	19
21. Accounts	20
210 The "T" account form	21
211 The ledger account form	21
212 Rules of debit and credit and determining an account balance	22
213 Determining and transferring the balances of the accounts to the balance sheet	24
22. Methods of bookkeeping in accounting	28
220 Single entry bookkeeping	28
221 Double entry bookkeeping	29
23. The journal	32
24. Posting transactions to the general ledger	36
240 The subsidiary ledger	37
25. The trial balance	41

250 Types of trial balances 43
26. The recording process for a merchandising business 48
260 Periodic inventory method 49
261 Perpetual inventory method 51
262 Single merchandise account form 53
27. The adjustment process 63
270 Expense accrual 64
271 Revenue accrual 65
272 Cost apportionment 66
273 Revenue apportionment 68
28. The closing process 74
280 Closing the revenue accounts 75
281 Closing the expense accounts 75
282 Closing the revenue and expense summary account 76
283 Closing the dividends account 76
284 Working papers 88
29. Some tax laws related to Turkish accounting practices and accounting documents. 105
290 Accounting documents 105
291 Accounting for tax rebates 122
292 Accounting for saving fund 125
293 Accounting for social security withholdings for those subject to the social security support premiums 127
294 Accounting for value added tax 128
295 Accounting for provisional taxes 140
296 Provisions of Law concerning required books and their maintenance 145

3. Accounting for assets, liabilities and owners' equity 151
30. Chart of accounts 151
31. Inventory, definitions types and procedures 153
310 Types of inventories 154
32. Valuation 155
320 Valuation when preparing a commercial balance sheet 156
321 Valuation when drawing up a fiscal balance sheet 157
33. Accounting for assets 161
330 Accounting for cash 161
331 Accounting for marketable securities 166

332 Accounting for accounts receivable 170
333 Accounting for notes receivable 178
334 Accounting for inventory 184
335 Accounting for Long - lived assets 200
34. Accounting for liabilities and owners' equity 221
340 Accounting for accounts payable 221
341 Accounting for notes payable 223
342 Accounting for owners' equity 226

4. Accounting for business organizations under the Turkish commercial code 243
40 Features of company accounting 243
41 Accounting for general partnerships 244
410 Formation 244
411 Increase of capital 246
412 Decrease of capital 248
413 Distribution of profit 249
414 Liquidation 252
42. Accounting for limited partnerships 258
420 Formation 258
421 Changes in capital of limited partnerships and their liquidation 260
422 Distribution of profit and taxation 260
43. Accounting for joint stock companies 261
430 General information concerning stock certificates 262
431 Formation, instantaneous formation and gradual formation 263
432 Increase of capital 271
433 Decrease of capital 274
434 Distribution of dividends 277
435 Accounting records concerning the issuance of corporate bonds 281
436 Dissolution and liquidation 286
44. Accounting for partnership limited by shares 292
440 Formation, instantaneous formation and gradual formation 292
441 Taxation 296
45. Accounting for limited liability companies 297
450 Formation 297
451 Changes in capital 298
452 Distribution of profit 298

Bibliography 301

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ

1. INTRODUCTION

Accounting is one of the most important and dynamic areas of study in the broad field of business administration. Individuals make decisions that have a financial impact. Accounting is the language of financial decisions. Regardless of their roles in life, every educated member of society finds it necessary to acquire a basic understanding of published corporate financial statements. To obtain these statements the accountant **analyzes, records, accumulates, summarizes, classifies, reports** and **interprets** the numerous events and their financial effects on the organization. Therefore industry and commerce are increasingly dependent on accountants who can analyze and interpret business problems in accountancy terms.

10. BASIC CONCEPTS AND DEFINITIONS

It has become customary in introductory textbooks written for the purpose of teaching specific subjects to begin with a "definition". Despite of this, one frequently sees that such definitions, written with such great initial care, attention, and diligence never succeed in becoming more than a difficult-to-remember formula. Therefore, as the course of lessons progresses, the subject matter will become clear in the student's mind. Furthermore this is a subject whose various methods and principles can be defined by identifying certain specific criteria.

Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least of a financial character and interpreting the results thereof (1).

The American Accounting Association defined accounting as "the process of identifying, measuring and communicating economic information to permit informed judgements and decisions". Accounting is also defined as "the art of controlling a business by keeping accurate book-keeping records, preparing from those records certain statistics called "accounting ratios" and using those ratios, to detect financial difficulties before they become serious, so that counter-measures may be taken" (2).

Accounting is divided into two main fields. The field of **Financial Accounting** is concerned with how accounting can serve external decision makers such as investors, creditors, labour unions, financial analysts, government agencies and other interest groups. The field of **managerial accounting** is concerned with how accounting can serve internal decision makers such as top executives, department heads and people at other management levels within an organization.

---

(1) American Institute of Certified Public Accountants, Accounting Terminology Bulletin No 1, 1961, p. 9.

(2) Whitehead Geoffrey, Success in Principles of Accounting, 1982, p. 1.

The information provided by Financial Accounting to external decisions makers generally takes the form of summary reports called **Financial Statements**. The two most important reports produced by the accounting system are, the Balance Sheet and the Income Statement.

MARMARA ÜNİVERSİTESİ YAYINEVİ

11. THE FUNCTIONS OF ACCOUNTING

The functions and the things that are done to perform these functions are a more explicit indication of the nature of accounting.

The principal functions of accounting are the following:

- To enlighten business managers on the decisions they need to make;

- To provide interested parties (banks who have extended or intend to extend credit, current stockholders, investors considering the purchase of a business's stocks and bonds, and tax authorities) with information about the enterprise;

- To protect the existence of the enterprise against the malfeasance of its officers.

The activities that an enterprise's accounting department needs to carry out for this purpose are the following:

a) Maintain records of business transactions;

b) Prepare financial statements

c) Calculate the cost of the goods and services produced;

d) Prepare an operating budget, compare it with performance figures, investigate the causes of any discrepancies, and take measures as may be required.

a) Maintaining a business enterprise's records:

Transactions such as buying or selling goods, incurring expenses, and borrowing money must be determined and entered into the books. These records in turn serve as the source of the information needed for financial statements, budgets, and cost accounting. Auto - control to protect the enterprise against malfeasance and fiscal examinations performed by tax authorities for tax purpose are also based on these records.

b) Financial statements:

The principal statements are the income statement and the Balance sheet. In addition to these, other statements such as working capital statements or Cash flow

statements may also be prepared when necessary. Financial statements provide shareholders as well as others who may be interested in the company (such as banks and tax authorities) with essential information about it; they also shed light on matters about which the enterprise's management must make a decision.

c) Cost accounts:

Costs may be calculated and used for a variety of reasons. The most important of these is to determine the selling price. Indeed in most cases, companies that produce a variety of products determine their selling prices by adding a specific profit margin to the cost of producing the goods. In addition, decisions such as which of a range of production ought to be increased, and which products should be discontinued are also dependent upon one's knowlede of the individual cost of each.

d) Operating budgets:

A budget is an expression in cash terms of forecasts concerning business activities during some future period. Projections of such matters as sales, costs, revenues, and cash flow will make it possible for the company's management to make necessary decisions in a timely manner. Budgets that are prepared are compared with figures of actual results and if there are any discrepancies, these must be explained and if new decisions must be made they should be taken accordingly.

As you may see, accounting has two aims of recording the transactions that take place on the one hand, and on the other, of determining what changes they create in the existence of the enterprise and in its owner's equity and liabilities, At the same time it sheds light on decisions that management must make on such matters as prices, sales, investment and financing.

12. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Generally Accepted Accounting Principles (GAAP) are the broad guidelines at financial reporting that have been developed and accepted by the accounting profession (3).

---

(3) Johnson L. Glenn, Gentry A. James, Finney and Miller's Principles of Accounting, Introductory, 1980, p. 29.

120. BASIC ACCOUNTING ASSUMPTIONS

Accounting system is based on certain assumptions about the nature of business. A person must be aware of the basic accounting assumptions to understand accounting theory. Basic accounting assumptions fundamental to financial reporting are:

– **Entity:** All businesses are assumed to be separate units for accounting purposes. Each businesses is treated separately from other businesses and from its owners.

– **Going Concern:** It is assumed that the enterprise will continue its operations for the forseeable future; if this assumption is not valid, that is, the enterpise is about to be liquidated, different valuation principles will apply (4).

– **Accounting Period:** It is assumed that business activity stops at periodic intervals to allow the preparation of financial statements and to provide income determination. The period is a calender year (January 1 to December 31).

– **Monetary:** The accounting system measures everything in terms of money. The common unit of measure in accounting is the Turkish Lira (TL) in Turkey and is the dollar ($) in USA.

– **Historical Cost:** Historical cost is assumed to be the proper basis of accounting for assets, liabilities and owners' equity "Historical cost" is the cost that the company paid and recorded on the books.

– **Revenue-recognition:** The income statement, which summarizes the results of the business operations for a period, includes those revenues earned during the current period and it excludes any prior or subsequent period revenue.

– **Matching:** After the revenue for an accounting period has been determined, the costs accosicated with that revenue must be deducted in order to measure net income.

121. BASIC ACCOUNTING DOCTRINES

Accounting doctrines are normative attitudes or ideas, of the accounting profession as to what ought to represent good accounting practice (5).

---

(4) Birch Michael, L., "The Evaluation of Accounting and Auditing Practices in Turkey from the International Accounting Standards Point of View" Türkiye VI. Muhasebe Eğitimi Sempozyumu, P.5.

(5) Johnson L. Glenn, Gentry A. James, Finney and Miller's, Principles of Accounting, p. 34.

– **Materiality:** Any transaction that has a significant effect on the financial statements should be recorded. Immaterial transactions do not need to be reported, because of their lack of significance.

– **Consistency:** Accountants should use the same accounting procedures from one period to the next so that financial statements would be comparable.

– **Comparability:** Accounting procedures of different firms in the same industry should be based on similar accounting principles so that their financial statements would be comparable.

– **Objectivity:** Financial reports should be objective. Accountants, following same measurement standards should reach the same conclusion.

13. A BRIEF HISTORY OF ACCOUNTING

The history of accounting goes back to ancient Roman and Greek times and even as far back as the Sumerians and Assyrians.

On one tablet inscribed in cuneiform writing found by archaeologists investigating a period dating to 2200 B.C. we find the following:

"In the month of Iyar, Bel-ake-irib's son Larasib, who owes the sum of forty tetradrachms, will count forty tetradrachms into the hand of Hablay's son Zir-idin at the Temple of the Sun in Babylon. Witnessed by Ruya's son Urame, Ayrad's son Allit, and Sinam's son Kistar on the third day of the month of Kislav in the fifth year of the reign of the King Pakarus the Iranian."

Documents of this sort going back to as early as 3600 BC. have been found and they are examples of the oldest known documents and records of accounting.

In a painting from ancient Egypt we see a scribe sitting cross-legged on the ground recording the incoming and outgoing grain from a pharaoh's granary. This is evidence that the ancient Egyptians had at least a simple form of warehouse control.

By Roman times, records of account had acquired a legal aspect. In the course of a defense of a client in one trial, the famous Roman orator Cicero makes an attack on the records of the plaintiff:

"The plaintifff admits that he never recorded the sum in question in his general ledger but asserts that the sum exists in his daily accounts. If daybooks and general ledgers had the same standing, what need would there be to keep the latter? The reason for the adoption of the custom of maintaining a general ledger is the fact that transitory memoranda are not worthy of confidence."

For more than five thousand years, accounting practices have advanced in parallel with the development of civilization.

The first scholarly work concerning double entry bookkeeping was published in 1494 in Italy by Luca Paciolo. Entitled **Summa de Aritmetica Geometria Proportioni et Proportinalite.** This book contained thirty-six chapters on the subject of accounting.

With great humility, Paciolo tells us that the maintance of double entry bookkeeping was the invention of a man by the name of Cofrugli in 1458. Nevertheless it was Paciolo himself who deepened principle and systematized it. Because of the author's close contact with merchants, his book is full of concrete examples.

Paciolo sets forth three principles for those wishing to be seccessful in business: ready cash, good accountants and a reliable system. According to Paciolo, the first thing that needs to be done is to make up a complete list of one's business assets and liabilities. In the fifth chapter of his work, the author describes the books that a merchant needs to keep. In the chapters that follow he explains at length how they should be kept.

The science whose foundations were thus laid by Paciolo was later developed by Morton, Garammatcus, Cardan, Hutton, Hamilton, De Morgan, and Cayley.

In the 20th century first mechanical and then electronic accounting machines came into widespread use and while this has created a revolution in bookkeeping techniques it has nevertheless left the basic principles unchanged. What the future holds in store is difficult to say. (6)

14. BUSINESS ENTITIES

Events and happenings of concern to accounting are those events which have effect on the firm or business entity. Business entities are established to provide goods or services at a profit. Each business entity has an identity of its own, distinct from other business entities (7).

In accounting the business is also treated as a different person from the owner of the business. The owner, when he makes his capital available becomes a creditor of the business, for he has given it.

---

(6) Erkural Kenan, Muhasebe, Prensipler ve Uygulama Nihat Sayar Yayın ve Yardım Vakfı, Istanbul, 1988.

(7) Eskew K. Robert, Jensen L. Daniel, Financial Accounting, 1983, p. 6.

ÜNİVERSİTESİ YAYINEVİ

140 TYPES OF BUSINESS ENTITIES

Most business entities take one of three forms:

- proprietorship
- partnership
- corporation

The simplest and usually the smallest kind of organization is the **proprietorship**. This is a business organization with one owner. The goals of the proprietorship depend on the goals of the individual owner.

The **partnership** is a business entity owned jointly by two or more persons called partners. Partnerships have a written agreement among the partners which specifies the details of conducting the business.

The third form of business entity is the **corporation**. The owners are identified as stockholders or shareholders. Shareholders transfer resources to the corporate entity in exchange for shares of stock which represent units of ownership in the corporation. Corporations have advantages such as the ease of acquiring capital and the limited liability of each stockholder with the amount of their share in the company.

141. TYPES OF COMPANIES UNDER THE TURKISH COMMERCIAL CODE

In situations where an entrepreneur is unable to meet the capital requirements of a new enterprise on his own, he may seek one or more partners. The result is the formation of a partnership. According to Turkish laws, there are two types of partnerships: ordinary partnerships and commercial companies. Legal provisions concerning ordinary partnerships are included in the Code of Obligations while those concerning commercial companies are included in the Turkish Commercial Code.

Ordinary partnerships lack the status of an individual legal entity; commercial companies on the other hand are regarded by the law as if they were "legal persons". One effect of this is that the accounts of ordinary partnerships are no different from the books of enterprises that belong to real persons. In the case of commercial companies however, their status as a legal entity means that they must maintain their accounting records in ways that sets them apart from the records of personal firms.

The types of commercial companies recognized by Turkish Commercial law are:

- General partnerships
- Limited partnerships
- Partnerships limited by shares
- Limited liability companies
- Joint-stock companies (Corporations)
- cooperatives

15. BUSINESS TRANSACTIONS

MARMARA ÜNİVERSİTESİ YAYINEVİ

The Financial Accounting Standards Board defined an event as "a happening of consequence to an entity. An event is either an internal event or an external event. An internal event occurs completely within the entity. An external event involves interaction between the entity and its environment".

Transactions are a special kind of external event in which the entity exchanges something of value with an outsider (8). Both the entity and the outsider give and receive something of value. The accounting process focuses on transactions as they affect an organization. External events which are introduced into accounting system are called **business transactions**. Business transactions are the input of the financial accounting system and accounting reports are the output.

A business transaction may consist of a purchase, a sale, a receipt or payment of cash or any other financial happening (9). The effects of each transaction have to be studied in order to make available what information to record and report to decision makers. The following list summarizes the business transactions that a firm might have (10):

– Acquiring assets from owners (the owners invest in the firm)
– Acquiring assets from creditors (the firm borrows money)
– Investing resources in the kinds of assets needed to produce goods or services (the firm acquires production - type assets)
– Using the resources to produce goods or services (the production - type assets are used)
– Selling the goods or services of the firm (the firm changes its product or service for cash - type assets)
– Returning assets to the creditors (the creditors are paid)
– Returning assets to the owners (owners receive payment from the firm)

16. THE BASIC FINANCIAL STATEMENTS

The basic financial statements produced by the accounting system are the balance sheet, the income statement and the statement of retained earnings.

---

(8) Eskew K. Robert, Jensen L. Daniel, Financial Accounting 1983, p. 80.
(9) Brock R. Horace, Palmer E. Charles Accounting Principles and Applications: Complete, 1981, p. 3.
(10) Thacker J. Ronald, Accounting Principles, 1979, p. 12.

MARMARA ÜNİVERSİTESİ YAYINEVİ

160 THE BALANCE SHEET

The balance sheet is a financial statement showing financial condition of the business entity through presentation of assets, liabilities and capital of the business. Therefore the balance sheet is a detailed statement of the balancing equation:

Assets = Liabilities + Capital

A = L + C

The balance sheet represents the financial position of a business on one particular date, so it is a point - in - time measurement of the assets liabilities and owners' equity of a business entity.

A balance sheet contains:
- The name of the business
- The name of the statement
- The date
- The assets
- The liabilities
- The owners' equity

"A" Co.
Balance Sheet
December 31, 1990

Assets	Liabilities and Owners' Equity

Assets

Assets are properties that are expected to benefit future activities. They are things of value owned by a business. Examples of assets owned by a business are:

Cash on hand	2.000.0000.-
Merchandise on hand (goods on hand) (Inventory)	4.000.000.-
Automobiles	10.000.000.-
Buildings	30.000.000.-
Total assets of the firm	46.000.000.-

The T.L. value of an asset is the amount paid for the asset or its cost. It is not what the asset is "worth" if it were sold.

For reporting purposes assets are classified into two major groups called **current** and **noncurrent**. Current assets include cash and those assets which will be turned into cash in the near future, usually within a year from the date of the balance sheet. Examples of current assets are: Cash on hand, Cash in Bank, Marketable Securities, Accounts Receivable, Notes Receivable, Goods on hand.

Noncurrent assets are resources expected to be of use or benefit to the business for more than a year. Examples of noncurrent assets are: Land, Buildings, Automobiles, Machinery and other Equipment and Patents.

Liabilities and Owners' Equity

Equities are the "claims" against assets; some accountants prefer to think of equities as "interests in" or "sources of" the total assets (11). The first type of equity is **liabilities**. Liabilities are the economic obligations of the organization to outsiders (as distinguished from the owners). Amounts owed to suppliers for inventory merchandise purchased on credit (Accounts Payable), taxes owed to the government (Taxes Payable), amounts owed to banks (Bank Loan Payable), and amounts owed to employees (Salaries Payable) are typical examples of liabilities.

In the above example the total assets owned by the business amounted to 46.000.000 TL. Assume that this business owes the "X" Bank 18.000.000 TL which was borrowed by the firm to help pay for the building and automobiles. The 18.000.000 TL is a type of equity called a liability. Since the asset total is 46.000.000 TL and 18.000.000 TL of this total was supplied by the bank (a creditor); then 28.000.000 TL must have been supplied by the owners of the business. An opening balance sheet will be as follows:

"X" Co.
Balance Sheet
January 1, 1990

Assets		Liabilities and Owners' Equity	
Cash on hard	2.000.000.-	Capital	28.000.000.-
Merchandise on hand	4.000.000.-	Bank Loan	18.000.000.-
Automobiles	10.000.000.-		
Buildings	30.000.000.-		
	46.000.000.-		46.000.000.-

(11) Horngren T. Charles Indroduction to Financial Accounting, 1981, p. 11.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Owners' Equity is the remaining interest in the entity's assets after deducting liabilities. Owners' Equity is the excess of assets over the liabilities,

Owners' Equity	=	Assets	–	Liabilities
28.000.000	=	46.000.000.-	–	18.000.000.-

In a corporation, sources of owners' equity may come from the stockholders' investment or from retained earnings. Retained earnings represent the equity of the stockholders in the assets generated from the income producing activities of the business and kept for use in the business (12).

161. THE INCOME STATEMENT

The Income Statement is a report on results of operations. While the balance sheet reflects the financial position of a business at a given date, the income statement shows the record of its operating activities for the whole year. The Income Statement may be of greater interest to investors because it serves as a valuable guide in anticipating how the company may do in the future. Some companies refer to the Income Statement as "The Earnings Report" or, "The Statement of Profit and Loss". It is a dynamic statement which summarizes the results of a business operations for a period of time. The income statement matches the amounts received from selling goods and other items of income on the one hand against all the costs and outlays incurred in order to operate the business on the other hand. The result is either a **Net Profit** for the year or a **Net Loss** for the year. **Net income** and **net earnings** are other terms for net profit.

An income statement shows:

- the name of the business
- the name of the statement
- the period covered (the balance sheet is a point-in-time description; the income statement is a period-of-time description)
- the revenues
- the expenses
- net income (or net loss)

(12) Needles E. Belverd, Financial Accounting, 1983, p. 21.

Jackson Co.,
Income Statement
For the Year Ended December 31, 1986

Revenues	X
Expenses	(X)
Net Income (or net loss)	X

Income statements are usually prepared for the period of one year, they may be prepared quarterly and monthly as well.

The Determinants of Net Income; Revenues and Expenses

Revenues are the total prices charged by the firm in selling its goods and services. Examples of revenues are total sales of merchandise (sales), revenue from renting a buliding to an outsider (rent revenue), interest income from lending money (interest revenue).

An expense is the cost of use of things or services for generating revenue. An expense may also be defined as "a cost that has given a benefit and is now expired (13). Cost is defined as the benefits given up to acquire goods or services. **Unexpired costs** that can give future benefits are classified as **assets. An example of an unexpired** cost is **prepaid insurance**; the total payment for a three - year insurance policy may have been made in advance.

In certain instances, the goods or services purchased become valueless without having provided any benefit. These costs are called losses and appear on the income statement, as a deduction from revenues in the period that the decrease in value occured. Both expenses and losses have the same impact on net income: both are reductions.

Expenses reflect costs of operating a business for a period of time. **Cost of the goods sold** (CGS), reports the sacrifice the firm made in order to acquire the goods that is sold to customers during the period. Other examples of expenses are salaires, rent, advertising, interest on borrowed money (interest expense), depreciation (an expense of wear and tear on the production - type assets).

(13) Cashin A. James, Polimeni S. Ralpl, Cost Accounting, 1981, p. 19.

162 THE STATEMENT OF RETAINED EARNINGS

The **Statement of Retained Earnings** shows how the amount of retained earnings in the stockholders' equity section of the balance sheet of a corportion, changed during the year. The statement of retained earnings includes the begining balance of retained earnings, the net income for the accounting period as an addition, the dividends as deductions, and concludes with the ending balance of retained earnings.

A Co.
Statement of Retained Earnings
For the Year Ended December 31, 1990

Retained Earnings, Beginning of Year	X
Add: Net income	X
Subtotal	X
Less: Dividends	(X)
Retained Earnings, End of Year	X

The statement of retained earnings may be added on to the bottom of the income statement. The combined statements are called "a statement of income and retained earnings".

Retained earnings show the stockholders' equity in the company's assets that may be available from past earnings to be distributed to the stockholders in the form of dividends. Retained earnings increase as profits of the business accumulate and decrease as dividends occur. **Dividends** are distributions of assets to stockholders. These assets are created by succesful operations of a corporation and their source is the profit-making activities of the business itself.

17 THE FUNDAMENTAL BALANCE SHEET EQUATION

Business transactions affect the financial position of a business entity. The financial position of the business entity is represented by a **Balance Sheet** which has two sides or parts, that must always be in balance: On the left are shown **Assets**, on the right are shown **Liabilities** and **Owners' Equity**. Assets column contains all the goods and property owned as well as claims against others yet to be collected. Under liabilities are listed all the debts due creditors' claims against the assets. Owners' Equity column shows the interest of the owners in the firm. Owners' equity is a general term that represents the **stockholders' equity** for a corporation and the **partners' equity** for a partnership. In the balance sheet of an individual proprictorship the owner's claim to the business is called **proprietor's equity.**

Every business large or small does essentially two major things (14). First businesses acquire financial and productive resources from some source; then these resoruces are combined and used to create more resoruces. In the real world every asset has a source, that is, it comes from some individual or organization. Sources of assets are called equities. Equity is an idea introduced into accounting to show which groups or individuals have rights associated with the assets of the firm. There are two groups of people who have an interest in the assets. **Creditors** are people and firm to whom the business owes money. **Owners of the firm** are people and firms who invested money in the business. Therefore equities are of two types. The interest of the creditors in the firm is called **liabilities**. The interest of the owners is called **Capital** (Owners' equity).

The balance sheet is also known as the **statement of financial position**, because it tells something about the resources of the company as well as something about the debts owed and the interest of the owners in the firm.

The information which appears on a balance sheet can be arranged in the following basic equations:

Assets = Equities

Assets = Equity of the creditors + Equity of the owners

Assets = Liabilities + Capital

This equality is called the **basic accounting equation** or the **balance sheet equation**.

The business transaction is the event that brings about changes of parts of this basic equation, but no matter what business transaction occurs, the balance sheet equation must continue.

170 THE EFFECTS OF TRANSACTION ON THE BALANCE SHEET EQUATION

A business transaction is an economic event which affects the assets, liabilities or capital of a company. The equality of the balance sheet equation cannot be changed by any business transaction, that is, the total assets must always equal the total equities after each transaction.

Below is a list of some business transactions which took place during the two months for a business firm.

(14) Page John, Hooper Paul, Accounting and Information Systems, 1982, p. 7.

– **Starting a New Business** (March 2, 1990): Mr. "A" organized a business called "Jackson Electronics". He invested 16.000.000 TL in cash. The type of the business is a proprietorship, because, it has only one owner. The new firm has 16.000.000 TL in assets (the cash on hand) and Mr. "A" has a claim of 16.000.000TL (Capital) against the firm as a result of his investment. The beginning balance sheet of the new company will show the cash asset as well as the capital of the owner.

"Jackson Electronics"
Balance Sheet
March 2, 1990

Assets		Liabilities and Owners' Equity	
Cash	16.000.000.-	Capital	16.000.000.-
	16.000.000.-		16.000.000.-

After this transaction cash and capital increased.

– **Purchasing Business Property for Cash** (March 7, 1990): Mr."A" decided to get the shop ready for business operations and bought some equipment for 3.000.000 TL cash. This transaction does not change the total assets or the capital, but it does involve a shift in the composition of the assets of the company increasing equipment and decreasing cash.

"Jackson Electronics"
Balance Sheet
March 7, 1990

Assets		Liabilities and Owners' Equity	
Cash	13.000.000.-	Capital	16.000.000.-
Equipment	3.000.000.-		
	16.000.000.-		16.000.000.-

– **Purchase of an Asset on Credit** (March 11, 1990): Mr. "A" purchased two pieces of land for 2.000.000 TL each, from "L" Co. "L" Co. agreed to allow "Jackson Electronics" to pay the bill in thirty days, "L" Co. is the creditor of the business. "Accounts Payable" will represent the creditors to whom the business owes money. This transaction increases both assets and debts (liabilities) of the company.

"Jackson Electronics"
Balance Sheet
March 11, 1990

Assets		Liabilities and Owners' Equity	
Cash	13.000.000.-	Capital	16.000.000.-
Equipment	3.000.000.-	Accounts Payable	4.000.000.-
Land	4.000.000.-		
	20.000.000.-		20.000.000.-

Now, there are two different financial interests or claims against the firm's property - the creditor's claim and the owner's claim.

– **Sale of an Asset on Credit** (March 14, 1990): One piece of land was sold to "Z" Co. for 2.000.000 TL. "Z" Co. agreed to pay within 30 days. This transaction increases Accounts Receivable and decreases Land. "Accounts Receivable" represent amounts owed to the firm by customers.

"Jackson Electronics"
Balance Sheet
March 14, 1990

Assets		Liabilities and Owners' Equity	
Cash	13.000.000.-	Capital	16.000.000.-
Equipment	3.000.000.-	Accounts Payable	4.000.000.-
Land	2.000.000.-		
Accounts Receivable	2.000.000.-		
	20.000.000.-		20.000.000.-

– **Payment of a Liability** (April 10, 1990): The 4.000.000 TL. owed on the land is paid to "L" Co. The transaction reduces both assets and liabilites.

"Jackson Electronics"
Balance Sheet
April 10, 1990

Assets		Liabilities and Owners' Equity	
Cash	9.000.000.-	Capital	16.000.000.-
Equipment	3.000.000.-		
Land	2.000.000.-		
Accounts Receivable	2.000.000.-		
	16.000.000.-		16.000.000.-

– **Collection of Accounts Receivable** (April 13, 1990): Jackson Electronics" received a check from "Z" Co. in the amount of 1.500.000 TL. This transaction affects two assets - increasing cash and decreasing Accounts Receivable.

"Jackson Electronics"
Balance Sheet
April 13, 1990

Assets		Liabilities and Owners' Equity	
Cash	10.500.000.-	Capital	16.000.000.-
Equipment	3.000.000.-		
Land	2.000.000.-		
Accounts Receivable	500.000.-		
	16.000.000.-		16.000.000.-

After each transaction, the balancing effect of the balance sheet equation is kept. Therefore the following relationship always holds in accounting:

Assets = Equities
Assets = Liabilities + Capital

This equation is the relationship on which all accounting is based. Every business transaction changes the relationship by decreasing or increasing assets, liabilities and owners' equity in such a way that the balance sheet equation is always in balance.

171 THE EXPANDED BALANCE SHEET EQUATION

Revenues and expenses are subdivisions of Owners' equity. Revenues have the effect of increasing net earnings and therefore result in an increase in the Owners' equity. Expenses have the effect of decreasing net earnings and therefore result in a decrease in the owners' equity. On the other hand dividends also reduce owners' equity, but they are not expenses. Dividends are not directly related to the generation of sales or the conduct of operations.

If the accounting equation (balance sheet equation) is restated in term of assets, liabilites, capital, revenues, expenses and dividends, the important relationship and interaction between the income statement and balance sheet will be understood.

The basic accounting equation is;
Assets = Equities

Equities are of two types.

Assets = Liabilities + Owners' equity

MARMARA ÜNİVERSİTESİ YAYINEVİ

Owners' equity may arise from two sources: from owners' investing in the firm and from retained earnings. Therefore:

Assets = Liabilities + Capital (or Common Stock) + Retained Earnings

Retained earnings is net income minus dividends, so the equation can be further expanded as,

Assets = Liabilites + Capital + Net Income - Dividends

Net income is revenues minus expenses, so the completely expanded basic accounting equation is,

Assets = Liabilities + Capital + Revenues - Expenses - Dividends

MARMARA ÜNİVERSİTESİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

2. THE ACCOUNTING PROCESS

20. THE ACCOUNTING CYCLE

The Income Statement, Retained Earnings Statement and Balance Sheet are prepared at the end of each accounting period. Therefore the system which makes possible the preparation of these reports is very important.

The series of steps any business goes through to produce meaningful financial reports from all of the events that occur in its life is called the accounting cycle (14). When this process is carried out by hand or with the aid of mechanical devices, but without use of computers, it is called a manual accounting system. The cycle in a traditional manual system includes;

- Data collection
- Recording transactions in the journal
- Posting transactions to the ledger
- Preparing a trial balance
- Bringing the accounts up to date
- Preparing the financial statements
- Closing the books

- The accounting cycle begins with preparing documents and journalizing transactions. Documents are prepared as the first record of the transaction, when business transactions occur. Accounting transactions are supported by some type of written evidence known as business documents. Examples of documents are bills (invoices) from creditors, purchase order, debit memorandum and credit memorandum.

- Most journal entries are made directly from business documents. Journal entries are made in a book called a journal. Business transactions are **recorded in the journal** in their chronological order.

- The transactions are transferred from the journal to the accounts in the **ledger**. This transfer process is called **posting**. The balance of each account is determined at the end of the period.

- A list of accounts with their balances is prepared. This list is called a **trial balance.**

- Adjustments are made. The routine procedures of recording, classifying and summarizing transactions may not automatically provide for all information needed to prepare financial statements. The additional information can be entered into the accounts at the end of the period. This is called **adjusting process**. An adjusted trial balance is prepared, after all adjusting entries have been made.

(14) Page John, Hooper Paul, Accounting and Information Systems, 1982, p. 19.

- **Financial statements** are prepared. The most important reports produced by the accounting system are:

MARMARA ÜNİVERSİTESİ YAYINEVİ

The Balance Sheet
The Income Statement
The Statement of Retained Earnings

- After the financial statements have been prepared, the balances of the accounts are removed and cleared out so that new transaction information can be accumulated for the next period. This clearing - out activity is known as the **closing process**. An after - closing trial balance may be prepared to determine if ledger is in balance to begin the next period.

21. ACCOUNTS

The amounts entered into the accounting system from the business transactions are classified into useful categories called **accounts**. Accountants do not have time to prepare a balance sheet after each transaction. That is why the transactions are recorded in accounts. Transactions cause increases and decreases in assets and equities. These increases and decreases are recorded in accounts. Each account represents accumulated information about a particular kind of asset, liability, owners' equity, revenue or expense. Examples of asset accounts are;

- Cash on hand
- Investment in stocks
- Investment in bonds
- Notes Receivable
- Accounts Receivable
- Inventory
- Building
- Land
- Automobiles

Examples of liability accounts are;

- Accounts Payable
- Notes Payable
- Bank Loan Payable
- Dividends Payable
- Taxes Payable
- Salaries Payable

MARMARA ÜNİVERSİTESİ YAYINEVİ

Examples of owners' equity accounts in a corporation are;

- Common Stock
- Retained Earnings

Examples of revenue accounts are;

- Sales
- Interest revenue
- Rent revenue
- Service revenue

Examples of expense accounts are;

- Cost of goods sold
- Salary expense
- Rent expense
- Interest expense
- Advertising expense

210. THE "T" ACCOUNT FORM

In practice, accounts are shown in a complicated form to record more information. The simplified form of an account is called 'T' account because of its resemblence of the letter 'T'. In this form, an account has three parts;

- a title that describes the asset, liability, owners' equity, revenue or expense account
- a left side which is called the debit side
- a right side which is called the credit site

The 'T' account form is illustrated below.

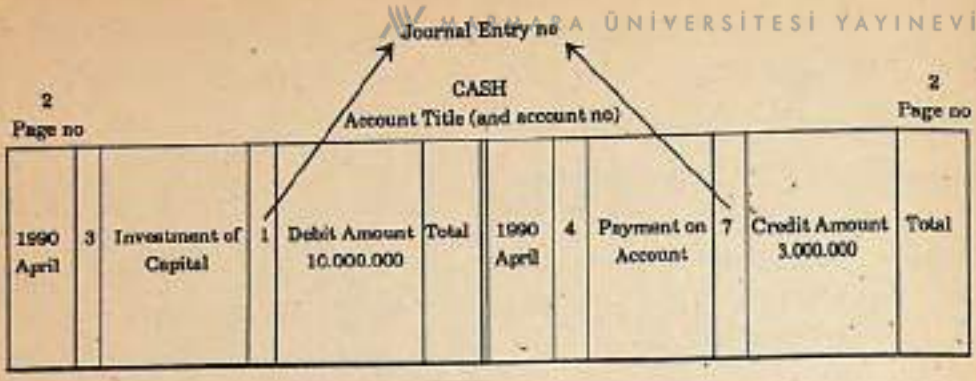
Title of the Account	
Debit side	Credit side

The terms 'debit' and 'credit' are the accountant's words and they mean only 'left' and 'right', not increase or decrease. The word 'charge' is used instead of 'debit'.

211 THE LEDGER ACCOUNT FORM

A **ledger** is a book of accounts used to classify transaction information. One of these ledger accounts, the Cash account appears as follows;

ANKARA ÜNİVERSİTESİ YAYINEVİ



- The name of the account and the account number are shown at the top of the account form.

- The year is shown at the top of the date column. When a credit is posted to the Cash account, the year is shown in the credit side date column.

- The posting reference column is used to note the journal entry number.

- The amount of the debit posted (transferred) from the journal is shown in the debit side column.

- The amount of the credit posted from the journal is shown in the credit side column.

212 RULES OF DEBIT AND CREDIT AND DETERMINING AN ACCOUNT BALANCE

All increases in assets and all decreases in liabilities and owners' equity are recorded by "debits". All decreases in assets and all increases in liabilities and owners' equity are recorded by "credits". Therefore **debits** represent increases in asset accounts and decreases in liability ad owners' equity accounts. **Credits** represent decreases in asset accounts and increases in liability or owners' equity accounts

The relationships can be shown in the following manner:

Assets		=	Liabilities		+	Owners' Equity	
Debit for increases	Credit for decreases		Debit for decreases	Credit for increases		Debit for decreases	Credit for increases

MARMARA ÜNİVERSİTESİ YAYINEVİ

The amount is entered on the debit side to increase an asset-type account. The amount is entered on the credit side to decrease an asset- type account. Therefore all asset accounts should have **debit balances** at the end of an accounting period, because increases can be expected to exceed decreases.

A balance of an account is computed by deducting the smaller total amount from the larger one. The debit balance of an asset account and the credit balance of a liability account are computed as follows:

Cash		Bank Loan	
-	-	-	-
-	-	-	-
-	-	-	-
5.000.000.-	3.000.000.-	10.000.000.-	20.000.000.-

Debit Balance: 2.000.000.- Credit balance 10.000.000.-

The amount is entered on the credit side to increase an equity - type account (liabilities and owners' equity). The amount is entered on the debit side to decrease an equity - type account. Therefore all equity accounts should have credit balances at the end of an accounting period because increases can be expected to exceed decreases.

Revenues have the effect of increasing owners' equity. Accordingly they are considered increases in owners' equity and are increased by credits. Expenses have the effect of decreasing owners' equity. Accordingly they are considered decreases in owners' equity and are increased, by debits. Dividends also reduce owners' equity and are recorded as debits in the 'dividends' account.

It should be noted that only balance sheet accounts in an accounting system have balances at the beginning of an accounting period. Revenue, expense and dividend accounts have zero balances, because they have been closed out at the end of the previous period.

ANKARA ÜNİVERSİTESİ YAYINEVİ

Graphic summary of debit and credit rules:

Assets		=	Liabilities		+	Capital stock		+	Retained Earnings	
+	−		−	+		−	+		−	+
dr.	cr.		dr.	cr.		dr.	cr.		dr.	cr.

Expenses	
+	−
dr.	cr.

Revenues	
−	+
dr.	cr.

Dividends	
+	−
dr.	cr.

213. DETERMINING AND TRANSFERRING THE BALANCES OF THE ACCOUNTS TO THE BALANCE SHEET

Business transactions entered in the accounting records must retain the basic equality of assets and equities. The total of all debit balances of asset accounts in the ledger must be equal to the total of all credit balances of equity accounts in the ledger. Any business transaction cannot change the fundamental accounting equation: "Assets = Liabilities + Owners' Equity".

The list below contains the transactions for "Jackson Electronics" during the months of March and April. The transactions are now used to illustrate the application of the principle of duality and to show how transactions are recorded in the accounts. At the end of a certain period of time the balance sheet can be prepared from the balances of the accounts. Therefore a balance sheet is a list of balances outstanding on the accounts after the revenue, expense accounts and dividends account in corporations have been closed.

- **Starting a new business** (March 2, 1990): Mr. 'A' invested 16.000.000.- TL cash in the business.

Assets increased. Owner's equity (capital) increased.

Debit cash for 16.000.000.- TL (Increases in assets are recorded by debits).

Credit capital for 16.000.000.- TL (Increases in Owner's equity are recorded by credits).

Cash	Capital
16.000.000.-	16.000.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

- **Purchasing business property for cash** (March 7, 1990): The firm purchased equipment for 3.000.000.- TL cash.

Assets increased. Assets decreased.

Debit equipment for 3.000.000.- TL (Increases in assets are recorded by debits).

Credit Cash for 3.000.000.- TL (Decreases in assets are recorded by credits).

Cash		Capital		Equipment	
16.000.000.-	3.000.000.-		16.000.000.-	3.000.000.-	

- **Purchase of an asset on credit** (March 11, 1990): Purchased two pieces of Land for 2.000.000.- each, on account.

Assets increased. Liabilities increased.

Debit land for 4.000.000.- (Increases in assets are recorded by debits).

Credit Accounts Payable for 4.000.000.- (Increases in liabilities are recorded by credits).

Cash		Capital		Equipment	
16.000.000.-	3.000.000.-		16.000.000.-	3.000.000.-	

Land		Accounts Payable	
4.000.000.-			4.000.000.-

- **Sale of an asset on credit** (March 14, 1990): One piece of land was sold for 2.000.000.- on account.

Assets decreased. Assets increased.

Debit Accounts Receivable for 2.000.000.- (Increases in assets are recorded by debits).

Credit Land for 2.000.000.- (Decreases in assets are recorded by credits).

MARMARA ÜNİVERSİTESİ YAYINEVİ

Cash	
16.000.000.-	3.000.000.-

Capital	
	16.000.000.-

Equipment	
3.000.000.-	

Land	
4.000.000.-	2.000.000.-

Accounts Payable	
	4.000.000.-

Accounts Receivable	
2.000.000.-	

- **Payment of a liability** (April 10, 1990): the 4.000.000 owed on the land was paid.

Assets decreased. Liabilities decreased.

Debit Accounts Payable for 4.000.000.- (Decreases in liabilities are recorded by debits).

Credit Cash for 4.000.000.- (Decreases in assets are recorded by credits).

Cash	
16.000.000.-	3.000.000.-
	4.000.000.-

Capital	
	16.000.000.-

Equipment	
3.000.000.-	

Land	
4.000.000.-	2.000.000.-

Accounts Payable	
4.000.000.-	4.000.000.-

Accounts Receivable	
2.000.000.-	

- **Collection of Accounts Receivable** (April 13, 1990): A check in the amount of 1.500.000 was received.

Assets increased. Assets decreased.

Debit Cash for 1.500.000.- (Increases in assets are recorded by debits).

Credit Accounts Receivable for 1.500.000.- (Decreases in assets are recorded by credits).

MARMARA ÜNİVERSİTESİ YAYINEVİ

Cash	
16.000.000.-	3.000.000.-
1.500.000.-	4.000.000.-
17.500.000.-	7.000.000.-

Capital	
	16.000.000.-

Equipment	
3.000.000.-	

Land	
4.000.000.-	2.000.000.-

Accounts Payable	
4.000.000.-	4.000.000.-

Accounts Receivable	
2.000.000.-	1.500.000.-

In the above example, transactions are recorded in the accounts instead of preparing a balance sheet after each transaction. The balance sheet can be prepared from the balances of the accounts. It should be noticed that asset accounts have debit balances; equity accounts (liabilities and owner's equity) have credit balances. "Accounts Payable" will not appear in the balance sheet, because it has no balance.

Account balances on April 13, 1990, are as follows:

Cash: 10.500.000 (debit balance)

Accounts Receivable: 500.000 (debit balance)

Equipment: 3.000.000 (debit balance)

Land: 2.000.000 (debit balance)

Capital: 16.000.000 (credit balance)

Accounts Payable: - (no balance)

"Jackson Electronics"
Balance Sheet
April 13, 1990

Assets		Liabilities and Owner's Equity	
Cash	10.500.000.-	Capital	16.000.000.-
Accounts Payable	500.000.-		
Equipment	3.000.000.-		
Land	2.000.000.-		
	16.000.000.-		16.000.000.-

22. METHODS OF BOOKKEEPING IN ACCOUNTING

MARMARA ÜNİVERSİTESİ YAYINEVİ

There are two methods of maintaining books in accounting. The first of these is the simpler system of single entry bookkeeping and the second is the more complex system of double entry bookkeeping.

220. SINGLE - ENTRY BOOKKEEPING

In single entry, each transaction is considered only from one side and is entered only once into the accounts. In this method, consideration is given to only one-half of what is used in double entry accounting and that is what is recorded in the books.

Single entry bookkeeping is not systematic and for that reason it is quite troublesome to describe and explain. It is possible to maintain numerous different kinds of books (such as cash books, inventory and balance sheet book, customers' subsidiary books, and so on) using single entry accounting. This fact however does not change either the meaning or the nature of this simple method of bookkeeping: entries are still only one-sided and not connected to one another.

The best example of the method of single entry bookkeeping nowadays is the operating account book that our Tax Procedures Code stipulates must be kept. Second - class merchants (those with low gross turnovers under the income tax) are obliged to maintain this simple book of accounts that we call an operating account book. This book shows such transactions as purchases, sales, and outlays all at once and requires an inventory to yield its year- end results.

The principal features of the single entry method of bookkeeping are the following:

- Single entry bookkeeping is not a well - organized system on its own.

- Single entry bookkeeping lacks clarity and is unsystematic. It is a method of accounting used only in certain obligatory situations.

- The use of several different books (operating account book, cash book, customers' and sellers' current accounts books) under the single entry method do not alter either the simplicity of the method or its technique.

- Under the single entry method, one knows the results only by means of an inventory and a number of comparisons made at the end of the year.

- Under the single entry method, entries cannot be cross-checked against one another and for this reason, it is not easy to discover errors that may take place.

- Although single entry bookkeeping is not an organized system, it is still in use in some countries. The operating account book that began to be used in our country after the income tax went into effect is a living example of the method of single entry bookkeeping.

- Single entry bookkeeping is an inadequate and deficient method of keeping accounts. For example, it does not permit a business to see at every moment what its debts, claims, inventory, and other circumstances may be.

In the face of all these drawbacks, single entry bookkeeping cannot be a system of maintaining accounts. In countries that are economically advanced and in which the concepts of bookkeeping and accounting are developed, the single entry method has lost all respect and popularity.In less-developed countries on the other hand, where accounting concepts have not yet become entrenched and where importance is not given to the business of keeping accounts, efforts have been made to turn single entry bookkeeping into a system by means of a number of legal restrictions and conditions.

221. DOUBLE - ENTRY BOOKKEEPING:

Double entry bookkeeping means that every transaction is entered twice. In our description of simple single entry bookkeeping above we explained that only one side of a transaction was considered and entered into the books. Thus double entry bookkeeping is the completion of an entry that was left only half - done.

Double entry bookkeeping is a regular system and all modern accounting is constructed upon this system of entry. For this reason it is necessary for every accountant to be clearly aware of the two accounts into which each transaction is to be recorded. Failure to make this distinction means that transactions may be entered into two incorrect accounts thus upsetting and causing confusion in the results. Double entry bookkeeping requires knowledge and experience. Anyone who is determined to learn accounting must posssess the knowledge and experience to find the two accounts that are fundamental to each double entry.

There are many different types of books in double entry bookkeeping. The two most important of these are the journal and the general ledger. Others include the inventory and balance sheet book, the cash book, accounts payable subsidiary books and accounts receivable subsidiary books, the inventory cards, and the depreciation register. Maintenance of the first four books (journal, general ledger, inventory and balance sheet books, and cash book) is required by law; the others are optional and serve only as subsidiary books. The existence of a large number of different books is an important feature of double entry bookkeeping, because in this system, there is a theoretical and logical relationship between the different books.

The principal features of the double entry method of bookkeeping are the following:

MARMARA ÜNİVERSİTESİ NEVİ

- Double - entry bookkeeping is a regular system that has clear fundamentals and principles.

- Double - entry bookkeeping is explicit: it is based on logic and reason.

- Double - entry bookkeeping makes it necesarry to maintain a number of different books: these include a journal, a general ledger, and an inventory / balance sheet book and cash book.

- In double - entry bookkeeping, there exists a method of balance and control that is a consequence of the nature of the system. Entries and calculations cross - check one another. This makes it easy to discover mistakes.

- Double - entry bookkeeping clearly reveals information about profits and losses, debts and claims, and cash position. With the help of auxiliary books, it can also yield up detailed information about other matters that may be required.

- Under double entry bookkeeping, it is possible to generate a balance sheet and a profit and loss statement at the end of the fiscal period. By means of these two statements, one can get a general idea of an enterprise's position and tell whether things are going well or badly.

In short the double - entry system is based on the principle of duality - which means that all transactions have at least two different effects on the basic accounting equation, otherwise equality cannot be maintained. For every piece of business activity, there is at least one debit effect and at least one credit effect. The total debits always equal the total credits for each transaction. The double entry system is based on the basic accounting equation.

Assets = Liabilities + Owners' Equity
Debits = Credits

When a business transaction takes place an account is debited and the other account or accounts are credited. This dual nature of transactions give rise to the name **double - entry bookkeeping**.

Bookkeeping is considered a part of the accounting and is concerned with the detailed procedure for maintaining accounting records. It is very important, because accounting must be based on careful and efficient double entry bookkeeping. The first systematic presentation of double - entry bookkeepings was described in a mathematics book written by Fra Luca Pacioli who was an Italian mathematician.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Problem 1

The following transactions relate to the affairs of 'B' Corporation, a newly organized corporation.

January 1- 8.000.000.- par value capital stock was issued for cash.
11 - Paid 800.000.- to 'A' Co. for service supplies.
19 - Purchased land for 5.000.000.- cash.
24 - Service supplies costing 600.000.- were purchased on account from 'M' Co.
27 - The land was sold for 5.000.000.- cash.
29 - Additional capital stock in the amount of 7.000.000.- was issued for cash.
31 - A larger tract of land was acquired for 9.000.000.- cash.
31 - Paid 300.000.- to 'M' Co. to apply on account.

Prepare the balance sheet as of Januray 31, 1990.

Solution to Problem 1

Cash		Capital	Equipment
8.000.000.-	800.000.-	8.000.000.-	800.000.-
5.000.000.-	5.000.000.-	7.000.000.-	600.000.-
7.000.000.-	9.000.000.-	15.000.000.-	1.400.000.-
	300.000.-		
20.000.000.-	15.100.000.-	Cr.B.: 15.000.000.-	Dr. B.: 1.400.000.-
Dr.:	4.900.000.-		

Land		Accounts Payable	
5.000.000.-	5.000.000.-	300.000.-	600.000.-
9.000.000.-		300.000.-	600.000.-
14.000.000.-	5.000.000.-		
Dr.B.:	9.000.000.-	Cr.B.:	300.000.-

'B' Corporation
Balance Sheet
January 31, 1990

Assets		Liabilities and Owners' Equity	
Cash	4.900.000.-	Capital	15.000.000.-
Service Supplies	1.400.000.-	Accounts Payable	300.000.-
Land	9.000.000.-		
	15.300.000.-		15.300.000.-

23. THE JOURNAL

A **journal** is a book used to record the business transactions in their chronological order. The first record of a transaction is made in a journal by a **journal entry**. Journal entries in a journal should be in time sequence. The process of recording transactions in the journal is called **journalizing**.

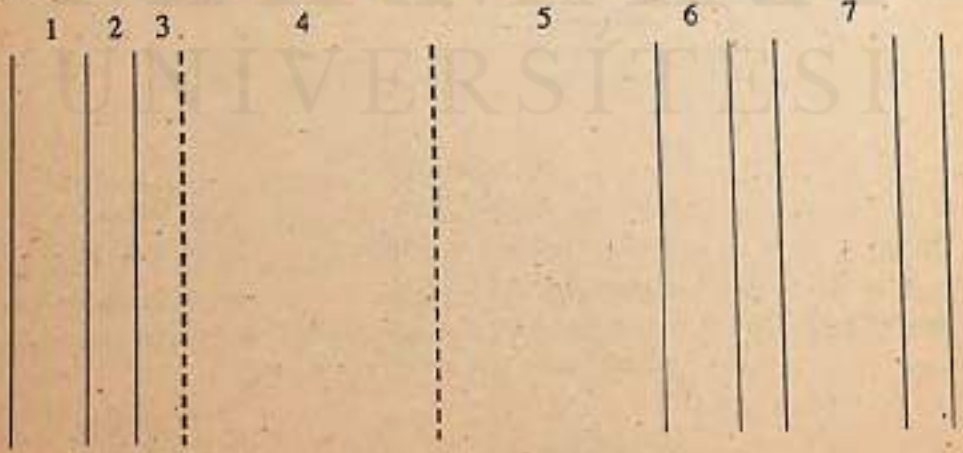
The journal is also where transactions are initially recorded. Because entries in the journal are arranged only according to their dates, it is difficult to immediatly determine, solely on the basis of the journal, the amount of cash on hand and whether a particular person owes or is owed anything by the enterprise. For this reson, simply arranging transactions according to date is not sufficient: it also becomes necessary to classify them according to subject. The book of account in which transactions are classified according to subject is called the general ledger and we will be discussing it again later on.

A journal normally has seven columns for each entry. The first two are reserved for the entry's general ledger page numbers: if the transaction is posted to the debit side of the ledger account, the general ledger page number is recorded in column 1; if it is transferred to the credit side of the ledger account on the other hand, that page number is recorded in column 2.

Column 3 is for the recording of transactions journal entry numbers.

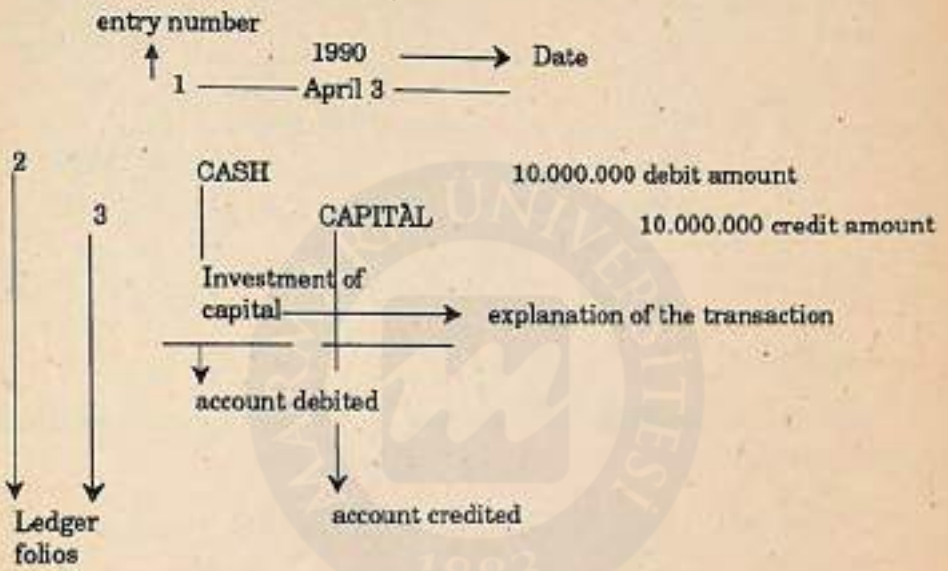
Column 4 is for the names of accounts debited while column 5 contains the names of accounts credited. Both these columns are also used for recording annotations concerning the entry. These explanations are recorded on the line immediately below the entry and may run through both columns.

Column 6 is for the amount of the debited account while column 7 is for the amount of the credited account. (The narrow column immediately adjacent to each of these columns is for the recording of fractional lira entries.)



The journal is also known as a book of original entry, because the accountant records the transaction in the jornal before making any entry in the ledger accounts. By journalizing first, all the data about a transaction is recorded in one place before any details can be forgotten.

Below is a journal showing the journal entry of a business transaction, 'investment of capital'.



- The year is shown at the top of the date column on every page of the journal.

- The date of the business transaction is shown at the top of the journal entry.

- The entry number is 'one', because this is the first journal entry of the firm.

- The page number of the specific account in the ledger to which the debit or credit is posted is shown in the reference column ('2' is the page number of the Cash Account '3' is the page number of the Capital Account).

The reference column is used when the entry is posted (transferred) to the ledger.

- The account debited is placed and entered before the credit account. The account credited is shown on the next line.

- The explanation of the journal entry is shown below the credit entry and it should be as brief as possible.

- The amount of the debit is shown in the debit column and the amount of the credit is shown in the credit column.

A business transaction can have more than one account to be debited or credited. This type of entry is then called a **compound journal entry.**

Assume that a company purchased office equipment for 1.500.000 TL. paying 750.000 TL. in cash and agreeing to pay the rest next month. The compound journal entry will be as follows:

Office Equipment	1.500.000.-	
Cash		750.000.-
Accounts Payable		750.000.-

Problem 2

The transactions listed below are those of a newly organized partnership. Journalize the transactions.

1990

July 1 - Brown and Smith each invested 4.000.000.- for capital (in cash) in 'XYZ' Co.

1 - Paid office rent for July, 1.125.000.-

2 - Paid 75.000.- for a newspaper advertisement.

15 - Billed 'Y' Co., for services performed during the last ten days, 810.000.-

17 - Received a bill from 'Z' Co., for miscellaneous expenses, 19.000.-

19 - Received 810.000.- from 'Y' Co.

22 - Paid miscellaneous expenses of 35.000.-

25 - Paid bill owed to 'Z' Co.

30 - Invested 400.000.- in some bonds.

31 - Salaries and wages were paid 925.000.-

31 - Mr. Smith, one of the partners withdrew 500.000.- in cash.

Solution to Problem 2

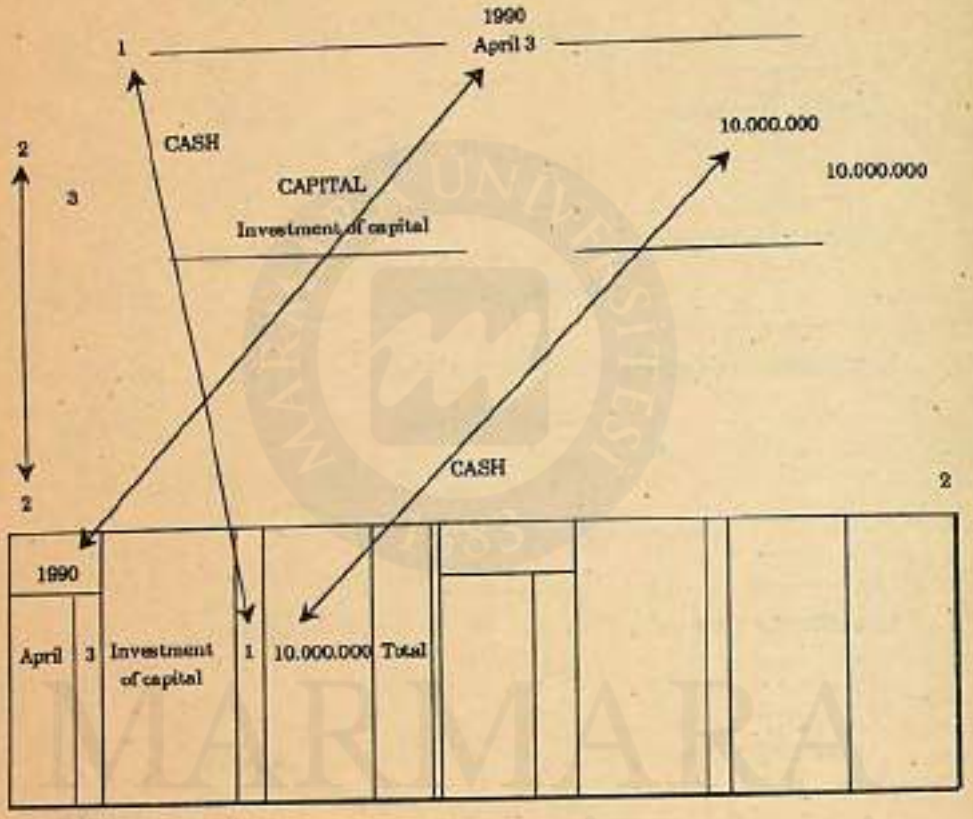
MARMARA ÜNİVERSİTESİ YAYINEVİ

		1990			
1		July 1			
	Cash			8.000.000.-	
			Capital		8.000.000.-
2		1			
	Rent expense			1.125.000.-	
			Cash		1.125.000.-
3		2			
	Advertising expense			75.000.-	
			Cash		75.000.-
4		15			
	Accounts Receivable			810.000.-	
			Service Revenue		810.000.-
5		17			
	Miscellaneous expenses			19.000.-	
			Accounts Payable		19.000.-
6		19			
	Cash			810.000.-	
			Accounts Receivable		810.000.-
7		22			
	Miscellaneous expenses			35.000.-	
			Cash		35.000.-
8		25			
	Accounts Payable			19.000.-	
			Cash		19.000.-
9		30			
	Investment in bonds			400.000.-	
			Cash		400.000.-
10		31			
	Salaries and Wages			925.000.-	
			Cash		925.000.-
11		31			
	Mr. Smith Drawing Account			500.000.-	
			Cash		500.000.-

24. POSTING TRANSACTIONS TO THE GENERAL LEDGER AND SUBSIDIARY LEDGERS

MARMARA ÜNİVERSİTESİ YAYINEVİ

The process of transferring information from the journal to the appropriate accounts in the ledger is called **posting**. This procedure is necessary, because at the end of a certain period of time, summary totals of the account information can be compiled for use in the preparation of financial statements. The procedure is illustrated below.



- Before posting the entry to the ledger, the debit account, named in the journal entry should be located in the ledger (CASH ACCOUNT).

- The amount of the debit in the journal (10.000.000) should be entered in the debit column of the ledger account.

- The date of the transaction should be entered in the date column of the account.

- The journal entry number (1) should be entered in the posting reference column of the account.

MARMARA ÜNİVERSİTESİ YAYINEVİ

- The page number of the ledger account (2) to which posting was made should be entered in the reference column of the journal. Writing the journal entry number in the ledger account and the page number of the account in the journal shows that the entry has been posted. They provide a useful cross - reference when entries must be traced.

- The preceding steps should be repeated for the credit side of the journal entry (CAPITAL ACCOUNT).

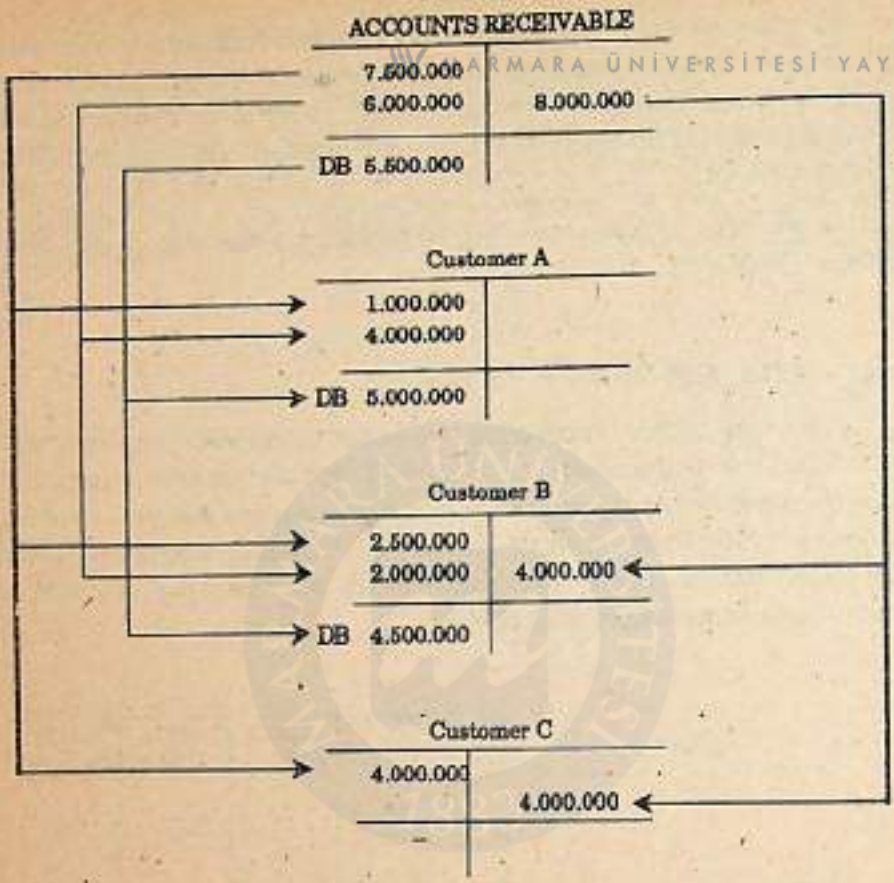
240. THE SUBSIDIARY LEDGER

The General Ledger is supported by various **subsidiary ledgers** which provide details for several accounts in the General Ledger. For example, an accounts receivable subsidiary ledger contains detailed debit, credit information on each of the many persons or firms owing money to the company. It contains a separate account for each credit customer. These separate accounts are called subsidiary accounts. A subsidiary account has the following columns:

Name

Date		Explanation	J.E. No	DEBIT TOTAL	CREDIT TOTAL	DEBIT BALANCE	CREDIT BALANCE

The following illustration presents the general - subsidiary ledger relationship for accounts receivable. The T - format for ledger accounts are employed because of its diagrammatic usefulness.

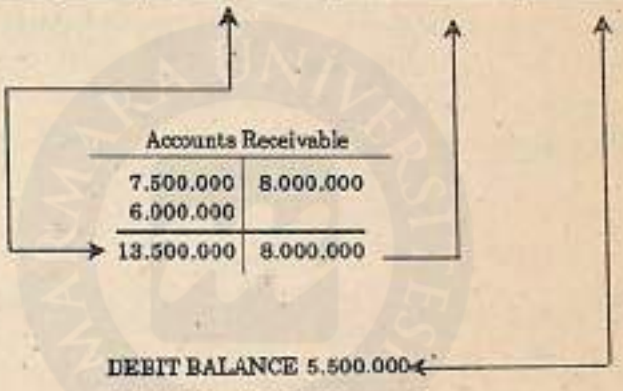


The list of the columns of the subsidiary accounts is called **subsidiary ledger schedules.** The debit total of subsidiary ledger schedule must be equal to the debit total of the related controlling account. The credit total of subsidiary ledger schedule must be equal to the credit total of the related controlling account. The balances should naturally be equal.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Subsidiary Accounts Receivable Ledger Schedule

Name of the Customers	Debit Total	Credit Total	Balance
Customer A	5.000.000	–	5.000.000
Customer B	4.500.000	4.000.000	500.000
Customer C	4.000.000	4.000.000	–
	13.500.000	8.000.000	5.500.000



Problem 3

Record the necessary journal entries, post them to ledger accounts (T accounts) and prepare the balance sheet as of April 30, 1990.

April 1 - The owner, Mr. Hooper invested 15.000.000 TL. for capital in cash.

2 - An agreement was made with the local bank and the credit in the amount of 5.000.000 TL. was drawn in cash.

3 - Purchased a car for 5.000.000 TL. in cash.

7 - Office equipment was purchased on account, for 800.000 TL. from 'L' Co.

18 - A truck was purchased for 3.000.000 in cash.

19 - The debt to 'L' Co. was paid in cash.

21 - The car was sold to 'M' Co. for 5.000.000 TL., on account.

23 - The owner purchased a new equipment costing 2.000.000 TL. on account, from 'Z' Co.

25 - The truck is sold for 3.000.000 TL. on account to 'D' Co.

26 - 500.000 TL. was paid to 'Z' Co.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Solution to Problem 3

		1990			
1		April 1			
	Cash			15.000.000.-	
			Capital		15.000.000.
2		2			
	Cash			5.000.000.-	
			Bank Loan		5.000.000.-
3		3			
	Cars			5.000.000.-	
			Cash		5.000.000.-
4		7			
	Office equipment			800.000.-	
			Accounts Payable 'L' Co.		800.000.-
5		18			
	Trucks			3.000.000.-	
			Cash		3.000.000.-
6		19			
	Accounts Payable 'L' Co.			800.000.-	
			Cash		800.000.-
7		21			
	Accounts Receivable 'M' Co.			5.000.000.-	
			Cars		5.000.000.-
8		23			
	Office equipment			2.000.000.-	
			Accounts Payable 'Z' Co.		2.000.000.-
9		30			
	Accounts Receivable 'D' Co.			3.000.000.-	
			Trucks		3.000.000.-
10		31			
	Accounts Payable 'Z' Co.			500.000.-	
			Cash		500.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

Cash	
15.000.000.-	5.000.000.-
5.000.000.-	3.000.000.-
	800.000.-
	500.000.-
20.000.000.-	9.300.000.-

Capital	
	15.000.000.-

Bank Loan	
	5.000.000.-

Trucks	
3.000.000.-	3.000.000.-

Cars	
5.000.000.-	5.000.000.-

Office Equipment	
800.000.-	
2.000.000.-	
2.800.000.-	

Accounts Receivable	
5.000.000.-	
3.000.000.-	
8.000.000.-	

'D' Co.	'M' Co.
3.000.000.-	5.000.000.-

Accounts Payable	
800.000.-	800.000.-
500.000.-	2.000.000.-
1.300.000.-	2.800.000.-

'L'Co.	
800.000.-	800.000.-

'Z' Co.	
500.000.-	2.000.000.-

Mr. Hooper
Balance Sheet
April 30, 1990

Assets		Liabilities and Owner's Equity	
Cash	10.700.000.-	Capital	15.000.000.-
Accounts Receivable	8.000.000.-	Bank Loan	5.000.000.-
Office Equipment	2.800.000.-	Accouts Payable	1.500.000.-
	21.500.000.-		21.500.000.-

25. The Trial Balance

When the balances of the individual accounts are determined a trial balance can be prepared. A trial balance is an attempt to check the accuracy of the book - keeping by striking a balance of the books(16). Since a debit entry is never made without a

(16) Whitehead, Geoffrey, Success in Principles of Accounting, 1982, p. 12.

corresponding credit entry, a list of all the items entered on the debit side should balance or agree with a list of all the items on the credit side. The trial balance which is a list of all the accounts in the ledger is prepared to test the equality of the debits and credits in the ledger at the end of a period of time. If an account has no balance, its name is still included in the list, but obviously no figure is entered in the balance columns.

Below is shown the trial balance of 'Jackson Electronics' as of April 13, 1990.

"Jackson Electronics"
Trial Balance
April 13, 1990

Accounts	Debit Total	Credit Total	Debit Balance	Credit Balance
Cash	17.500.000	7.000.000	10.500.000	-
Accounts Receivable	2.000.000	1.500.000	500.000	-
Equipment	3.000.000	-	3.000.000	-
Land	4.000.000	2.000.000	2.000.000	-
Accounts Payable	4.000.000	4.000.000	-	-
Capital	-	16.000.000	-	16.000.000
TOTAL	30.500.000	30.500.000	16.000.000	16.000.000

The debit total of the trial balance must be equal to the debit total of the journal. The credit total of the trial balance must be equal to the credit total of the journal.

		1990			
1	_____	March 2	_____		
	Cash			16.000.000.-	
			Capital		16.000.000.
2	_____	2	_____		
	Equipment			3.000.000.-	
			Cash		3.000.000.-
3	_____	3	_____		
	Land			4.000.000.-	
			Accounts Payable		4.000.000.-
	_____		_____		

MARMARA ÜNİVERSİTESİ YAYINEVİ

4	March 14			
	Accounts Receivable		2.000.000.-	
		Land		2.000.000.-
5	April 10			
	Accounts Payable		4.000.000.-	
		Cash		4.000.000.-
6	April 13			
	Cash		1.500.000.-	
		Accounts Receivable		1.500.000.-
			30.500.000.	30.500.000.-

The trial balance is also used as a basis for preparing financial statements. The debit balance column of the trial balance shows the asset side of the balance sheet, and the credit balance column of the trial balance shows the equity side (liabilities + owners' equity) of the balance sheet. The trial balance serves as a test check on the numerical accuracy of the journalizing and posting process. If the trial balance does not balance, some recording error must have been made. On the other hand, the converse is not necessarily true (17). The existing balances still may be in error or out of date with respect to what they should be. The task of correcting wrong accounts and bringing them up to date is another step in the accounting cycle.

250. TYPES OF TRIAL BALANCES

Monthly trial balances

The posting of the journal entry transactions into the general ledger may be checked by drawing up monthly trial balances without waiting for the end of the fiscal period. Since the fiscal period is normally taken as a calender year, it does not close at the end of each month and for that reason, each month's trial balance automatically includes the months before it and so shows the cumulative situation.

Monthly trial balances may also be produced once every two or three months rather than at the end of every month. But the shorter the interval between trial balances the easier it is to discover any errors that may have occured.

(17) Spiller A. Earl, Financial Accounting, 1971, p. 97.

MARMARA ÜNİVERSİTESİ YAYINEVİ

General pre - closing trial balance (Unadjusted trial balance)

When the fiscal year is twelve months long, the monthly trial balance drawn up for the twelfth month is in fact a general preclosing trial balance. It is "general" because it contains the results of twelve months' worth of transactions.

Even if this trial balance indicates that all the accounts have been maintained correctly, that does not necessarily imply that it reflects the company's true position: at the end of the fiscal year.An inventory ("counting, weighing and measuring the company's assets") must be performed and its results compared with the books.

The revenues and expenses that appear in individal accounts must also be combined in a single account so as to show the results of activities during the year.

Closing trial balance (Adjusted trial balance)

The sheet combining all accounts with their debit totals, credit totals, and their balances after all end - of - term procedures have been carried out is known as the closing trial balance.

The end - of - term procedures that are conducted after the general preclosing trial balance has been taken are the following:

- Assets must be counted, measured, or weighed

- Values must be assigned to the assets whose physical quantities have been determined in the inventory.

- A comparison must be made between the account balances as they appear in the preclosing trial balance and the actual situation and if there is a discrepancy, the accounts must be adjusted so as to show reality.

- A profit and loss account must be drawn up.

After these procedures have been carried out, the account totals and balances are reconsidered during which time revenues and expense accounts (for the fiscal year) are closed out. In the closing trial balance, the debit and credit sides of these accounts must be equal and the balance should appear to be zero.

Problem 4

The following transactions are those of "X" Company, a newly organized business, during November and December 1990.

November 1 - Invested 8.000.000 TL in cash
7 - Purchased a land for 6.000.000 TL on account

12 - Received 250.000 TL. in cash as commissions on services performed
20 - Paid miscellaneous expenses of 75.000 TL.
28 - Paid 100.000 TL for a newspaper advertisement announcing the nature of the Company's business
29 - Received 800.000 TL commisions in cash
30 - Office equipment is purchased on account for 800.000 TL
30 - Paid rent for November in the amount of 150.000 TL

December 1 - Received 100.000 TL rent, for the month of December, on land owned by the company
15 - The debt to the seller of the equipment is paid in cash
20 - The office equipment is sold at its cost 800.000 TL on account
26 - Paid office rent for December 150.000 TL
31 - The receivable 800.000 TL is collected in cash.

Required

a) Journalize the above transactions
b) Post to ledger accounts
c) Take a trial Balance as of December 31, 1990
d) Prepare the Balance Sheet and the Income Statement as of December 31, 1990.

Solution to Problem 4

1	November 1				
	Cash			8.000.000.-	
		Capital			8.000.000.
2	7				
	Land			6.000.000.-	
		Accounts Payable			6.000.000.-
3	12				
	Cash			250.000.-	
		Service revenue			250.000.-
4	20				
	Miscellaneous expense			75.000.-	
		Cash			75.000.-

5	————	28	————		
	Advertising expense			100.000.-	
			Cash		100.000.-
6	————	29	————		
	Cash			800.000.-	
			Service revenue		800.000.-
7	————	30	————		
	Equipment			800.000.-	
			Accounts Payable		800.000.-
8	————	30	————		
	Rent expense			150.000.-	
			Cash		150.000.-
9	————	Dec. 1	————		
	Cash			100.000.-	
			Rent revenue		100.000.-
10	————	15	————		
	Accounts Payable			800.000.-	
			Cash		800.000.-
11	————	20	————		
	Accounts Receivable			800.000.-	
			Equipment		800.000.-
12	————	26	————		
	Rent expense			150.000.-	
			Cash		150.000.-
13	————	31	————		
	Cash			800.000.-	
			Accounts Receivable		800.000.-
14	————	31	————		
	Revenue and Expense			475.000.-	
			Rent expense		300.000.-
			Miscellaneous expense		75.000.-
			Advertising expense		100.000.-
15	————	31	————		
	Rent revenue			100.000.-	
	Service revenue			1.050.000.-	
			Revenue and expense		1.150.000.-
	————		————		

Cash

1)	8.000.000.-	4)	75.000.-
3)	250.000.-	5)	100.000.-
6)	800.000.-	8)	150.000.-
9)	100.000.-	10)	800.000.-
13)	800.000.-	12)	150.000.-
	9.950.000.-		1.275.000.-

Capital

	1) 8.000.000.-

Land

2) 6.000.000.-	

Accounts Payable

10)	800.000.-	2)	6.000.000.-
		7)	800.000.-
	800.000.-		6.800.000.-

Equipment

7)	800.000.	11)	800.000.-

Service Revenue

15)	1.050.000.-	3)	250.000.-
		6)	800.000.-
	1.050.000.-		1.050.000.-

Miscellaneous expense

4)	75.000.-	14)	75.000.-

Advertising expense

5)	100.000.	14)	100.000.-

Rent expense

8)	150.000.-		
12)	150.000.-		
	300.000.-	14)	300.000.-

Rent revenue

15)	100.000.-	9)	100.000.-

Accounts receivable

11)	800.000.	13)	800.000.-

Revenue and Expense

14)	475.000.-	15)	1.150.000.-

"X" Co.
Trial Balance
Dec. 31, 1990

Accounts	TOTAL		BALANCE	
	Debit	Credit	Debit	Credit
Cash	9.950.000	1.275.000	8.675.000	–
Accounts Receivable	800.000	800.000	–	–
Land	6.000.000	–	6.000.000	–
Equipment	800.000	800.000	–	–
Capital	–	8.000.000	–	8.000.000
Accounts Payable	800.000	6.800.000	–	6.000.000
Service Revenue	1.050.000	1.050.000	–	–
Rent Revenue	100.000	100.000	–	–
Miscellaneous expense	75.000	75.000	–	–
Advertising expense	100.000	100.000	–	–
Rent expense	300.000	300.000	–	–
Revenue and expense	475.000	1.150.000	–	675.000
	20.450.000	20.450.000	14.675.000	14.675.000

"X" Co.
Balance Sheet
Dec. 31, 1990

Assets		Liabilities and Owners' Equity	
Cash	8.675.000.-	Capital	8.000.000.-
Land	6.000.000.-	Revenue and Expense	675.000.-
		Accounts Payable	6.000.000.-
	14.675.000.-		14.675.000.-

"X"
Income Statement
For the Year Ending December 31, 1990

Revenues:		1.150.000
Service revenue	1.050.000	
Rent revenue	100.000	
	1.150.000	
Expenses:		(475.000)
Miscellaneous expense	75.000	
Advertising expense	100.000	
Rent expense	300.000	
	475.000	
Net Income		675.000

26. THE RECORDING PROCESS FOR A MERCHANDISING BUSINESS

The accounting records for a merchandising business differs from a service company. A merchandising business buys and sells goods in order to make a profit. **Merchandise Inventory**, also known as **goods on hand** or **Inventory**, is the cost of merchandise on hand at a particular date. In a going - concern business the goods on hand at the beginning of the accounting period (beginning inventory) is equal to the goods on hand at the end of the previous accounting period (ending inventory).

Beginning Inventory, January 1, 1990 = Ending Inventory, December 31, 1989

The **Cost of goods sold** is the cost of all merchandise sold during the operating period. "Cost of goods sold" is an expense of the business. The total revenue produced by a firm in a period is reflected by the "Sales" account.

In a merchandising company "**gross profit on sales**" is the excess of net sales over the cost of goods sold. Net sales is calculated by deducting Sales returns and allowances and Sales Discounts from the Sales account. "**Sales returns and allowances**" is an account reflecting the price of merchandise returned to the company by customers, or reflecting allowances made for defective merchandise. This account should be debited, because it represents a reduction in sales.

Sales discounts is a type of cash discount which is allowed to be deducted by the customer on merchandise sold to him, if the merchandise is paid for according to the terms of the purchase. "Terms" represent the conditions concerning payment for a sale. For example, terms of 3/10; n/30 mean that if payment is made for the sale within ten days of the date of sale, then a 3% discount can be taken. However, the amount must be paid before the end of thirty days or it becomes overdue.

Purchase discounts is a type of cash discount which is allowed to be deducted on merchandise purchases if the merchandise is paid for according to the terms of the purchase.

"**Purchases**" account reflects the cost of merchandise purchased during the period.

"**Purchases returns and allowances**" is an account reflecting cost of merchandise returned by the company to the seller or reflecting allowances made for defective merchandise. The account should be credited, because it represents a reduction in the purchase price.

"**Transportation on purchases**" is an expense representing a part of the total purchase cost of goods. This account is also called "**Transportation in**".

Transportation out or shipping expense is an expense account reflecting costs of shipping merchandise to customers.

In a merchandising company there are two fundamental ways of keeping inventory records.

- Periodic Inventory Method
- Perpetual Inventory Method

A third method known as "Single Merchandise Account" method is widely used in Turkey.

260. PERIODIC INVENTORY METHOD

Under the periodic Inventory Method the purchase of goods is recorded in an account entitled "Purchases". If a beginning inventory exists, it is recorded in a separate account entitled "Inventory". Purchases plus beginning inventory equal goods available for sale during a period. To arrive at the ending inventory, a physical

count must be made of the goods still on hand at the end of the period. The cost of goods sold is determined by substracting the ending inventory from the goods available for sale; as follows:

MARMARA ÜNİVERSİTESİ YAYINEVİ

Beginning Inventory	X
Purchases	X
Goods available for sale	X
Ending Inventory	- X
Cost of goods sold	X

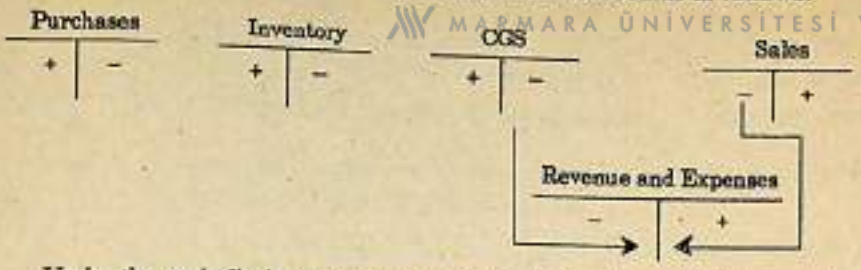
It should be noticed that under this method the cost of goods sold is not directly determined. It is indirectly computed. Cost of goods sold equals what is left over after the ending inventory is subtracted from the goods available for sale. Also it should be noted that the cost of goods sold is recorded only at the end of a certain period of time. For example it is computed and recorded at the end of each accounting period, because inventory amounts are determined periodically usually at the end of the accounting period. First of all a physical count of the goods on hand is made. After taking a physical count of the goods, each type of goods on hand is multiplied by the appropriate unit cost. The resulting costs of each type of goods are added to reach the cost of ending inventory.

The Income Statement for a merchandising company may be as follows:

Brown Merchandising Company
Income Statement
For the year Ending December 31, 1990

Sales		750.000.000
Sales returns and allowances	8.000.000	
Sales discounts	+ 14.000.000	(22.000.000)
Net Sales		728.000.000
Cost of Goods Sold (CGS)		(684.000.000)
Beginning inventory	100.000.000	
Purchases	800.000.000	
Transportation on purchases	+ 10.000.000	
	910.000.000	
Purchase returns and allowances	(11.000.000)	
Purchase discounts	(15.000.000)	
Goods available for sale	884.000.000	
Inventory on hand	(200.000.000)	
	684.000.000	
Gross Profit on Sales		44.000.000
Other Expenses		(23.000.000)
Net Income		21.000.000

Periodic Inventory Method may be shown on T accounts as follows:



Under the periodic inventory method no entry for the cost of the goods sold is recorded at the time of the sale, during the operating period. Instead CGS is determined and recorded at the end of certain periods. The following journal entries take place at the end of the accounting period.

_____ / _____

Inventory

Purchases

_____ / _____

CGS

Inventory

_____ / _____

Revenue and Expense

CGS

_____ / _____

Sales

Revenue and Expense

_____ / _____

261. PERPETUAL INVENTORY METHOD

Under the perpetual inventory method the purchase of goods is recorded in an account labeled "Inventory" rather than a purchase account. If beginning inventory exists, it would also be recorded in the Inventory account.When goods are sold, a credit is made to the Inventory account for the cost of the goods sold and a debit is made to "CGS" account:

_____ / _____

CGS

Inventory

_____ _____

The inventory account reflects the correct inventory balances throughout the accounting period, because purchases and cost of the goods sold are recorded as they occur, during the period. Under Perpetual Inventory Method, the use of detailed subsidiary records for each type of goods in the inventory cards indicate the purchases, sales and the balance of the inventory in both quantities and TL amounts.

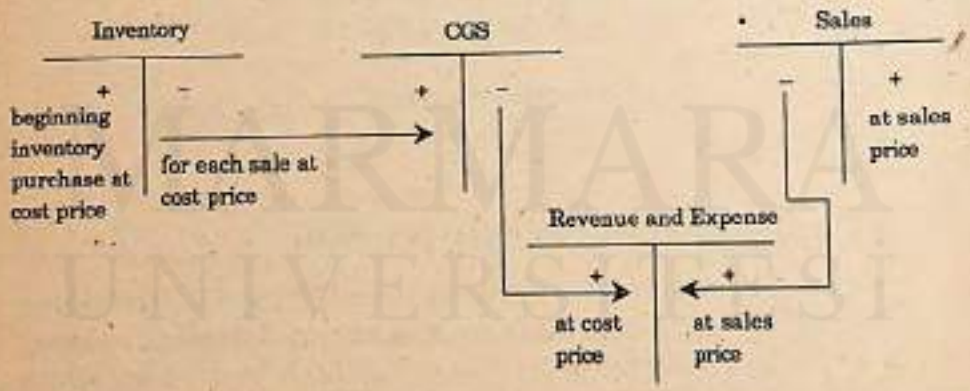
INVENTORY CARD

Descriptions: .....

Date		Quantities			Price	TL		
		Purchased	Sold	Balance		Debit	Credit	Balance

The debit total amount of the inventory card shows the debit total of the inventory account and the credit total of the inventory account. The balance is the cost value of the goods on hand.

Perpetual Inventory method which provides constantly correct balances for inventory and CGS may be shown on 'T' accounts as follows:



The use of prepertual inventory method requires taking a physical count of goods on hand at least once a year in order to check for possible error. If a physical count disagrees with the balances in the inventory account, adjustments are necessary, to reflect the actual count.

262. "SINGLE MERCHANDISE ACCOUNT" METHOD

MARMARA ÜNİVERSİTESİ YAYINEVİ

Under this method all the merchandise operations are recorded in one account known as "Merchandise Account".

Merchandise	
beginning inventory + purchases (at cost price)	Sales (at selling price)

As the beginning inventory plus purchases are recorded at cost price and the sales are recorded at selling price, the balance of the "Merchandise" account indicates nothing during the accounting period. At the end of the accounting period when ending inventory is determined, CGS and gross profit or loss on sales can be computed. Gross profit or loss on sales is computed and recorded as shown below.

Beginning inventory	X
Purchases	+ X
Goods available for sale	X
(Debit total of the merchandise account	
Ending inventory	(X)
Cost of goods sold	X
Sales	X
(Credit total of the merchandise account)	
CGS	(X)
Gross profit on sales (or net loss)	X

Merchandise		or	Revenue and expense	
	Revenue and expense			Merchandise

Problem 5

The transactions listed below are those of a newly organized Commercial Electrical Motors Sales Company.

1990

December 5 - 10.000.000 TL. par value stock was issued to the organizers for cash.

9 - Purchased in cash some office furniture and fixtures value of 800.000 TL.

12 - paid miscellaneous expenses of 220.000 TL.

17 - Paid office rent for December 200.000 TL. in cash

21 - Purchased an office building value of 12.000.000 TL. To settle the debt 4.000.000 TL. paid in cash, the remaining will be paid within 90 days after acquisition

22 - Purchased from 'Typical Manufacturing Company' on account 10 electrical motors for 600.000 TL. each

23 - Sold 5 electrical motors for 740.000 TL. each in cash.

24 - Purchased 6 electrical motors 600.000 TL. in cash from "Typical Manufacturing Company"

25 - Sold 4 electrical motors on account 720.000 TL. each to ABC company.

26 - Paid 160.000 TL. dividends to stockholders in cash.

28 - Paid 600.000 TL. to settle the account of "Typical Manufacturing Company".

30 - Paid salaries for December 400.000 TL. in cash.

Solution to Problem 5

Perpetual Inventory Method

Inventory Card:

Date		Explanation	Quantities			P	Amounts		
			Purchased	Sold	Balance		Debit	Credit	Balancq
Dec.	22	.....	10	–	10	600.000	6.000.000	—	6.000.000
Dec.	23	.....	–	5	5	600.000	—	3.000.000	3.000.000
Dec.	24	.....	6	–	11	600.000	3.600.000	—	6.600.000
Dec.	25	.....	–	4	7	600.000	—	2.400.000	4.200.000
			16	9			9.600.000	5.400.000	

MARMARA ÜNİVERSİTESİ YAYINEVİ

1	Dec. 5				
	Cash		10.000.000.-		
	Capital				10.000.000.
2	9				
	Furniture and Fixture		800.000.-		
	Cash				800.000.-
3	12				
	Miscellaneous expenses		220.000.-		
	Cash				220.000.-
4	17				
	Rent expense		200.000.-		
	Cash				200.000.-
5	21				
	Building		12.000.000.-		
	Cash				4.000.000.-
	Accounts payable				8.000.000.-
6	22				
	Inventory		6.000.000.-		
	Accounts payable				6.000.000.-
7	22				
	Cash		3.700.000.-		
	Sales				3.700.000.-
8	30				
	Cost of goods sold		3.000.000.-		
	Inventory				3.000.000.-
9	24				
	Inventory		3.600.000.-		
	Cash				3.600.000.-
10	25				
	Accounts Receivable		2.880.000.-		
	Sales				2.880.000.-
11	25				
	CGS		2.400.000.-		
	Inventory				2.400.000.-
12	26				
	Dividends		160.000.-		
	Cash				160.000.-
13	28				
	Accounts Payable		600.000.-		
	Cash				600.000.-
14	30				
	Salaries expense		400.000.-		
	Cash				400.000.-

15	——— 31			
	Revenue end expense		820.000.-	
		Misc. exp.		220.000.-
		Rent. expense		200.000.-
		Salaries expense		400.000.-
16	——— 31			
	Sales		6.580.000.-	
		Revenue and Expense		6.580.000.-
17	——— 31			
	Revenue and expense		360.000.-	
		Retained Earnings		360.000.-
18	——— 31			
	Retained Earnings		160.000.-	
		Dividends		160.000.-
19	——— 31			
	Capital		10.000.000.-	
	Accounts Payable		13.400.000.-	
	Retained Earnings		200.000.-	
		Cash		3.720.000.-
		Accounts Receivable		2.880.000.-
		Building		12.000.000.-
		Furniture Fixture		800.000.-
		Inventory		4.200.000.-

Cash	
10.000.000	800.000
3.700.000	220.000
	200.000
	4.000.000
	3.600.000
	160.000
	600.000
	400.000
13.700.000	9.980.000
	3.720.000
13.700.000	13.700.000

Capital	
10.000.000	10.000.000

Furniture and Fixture	
800.000	800.000

Accounts Payable	
600.000	8.000.000
13.400.000	6.000.000
14.000.000	14.000.000

Accounts Receivable	
2.880.000	2.880.000

Salaries Expense	
1.400.000	1.400.000

Miscellaneous expense	
220.000	220.000

Rent expense	
200.000	200.000

Building	
12.000.000	12.000.000

Dividends	
160.000	160.000

Inventory	
6.000.000	3.000.000
3.600.000	2.400.000
9.600.000	5.400.000

Sales	
	3.700.000
	2.880.000
6.580.000	6.580.000

CGS	
3.000.000	
2.400.000	
5.400.000	5.400.000

Revenue and Expense	
6.220.000	
360.000	6.580.000
6.580.000	6.580.000

Retained Earnings	
160.000	360.000
200.000	
360.000	360.000

Commercial Electrical Motors Sales Company

Balance Sheet

Dec. 31, 1990

Assets		Liabilities and Owners' Equity	
Cash	3.720.000.-	Capital	10.000.000.-
Accounts Receivable	2.880.000.-	Accounts Payable	13.400.000.-
Building	12.000.000.-	Retained Earnings	200.000.-
Furniture and Fixture	800.000.-		
Inventory	4.200.000.-		
	23.600.000.-		23.600.000.-

Commercial Electrical Motors Sales Company
Income Statement for the Year Ended
Dec. 31, 1990

Sales		6.580.000
Cost of Goods Sold		(5.400.000)
Gross Profit on Sales		1.180.000
Expenses:		
Rent	200.000	
Salaries	400.000	
Miscellaneous	220.000	
	820.000	820.000
Net Income		360.000

Commercial Electrical Motors Sales Company
Statement of Retained Earnings for the Year Ended
Dec. 31, 1990

Retained Earnings Beginning of the Year	0
Net Income for the Year 1990	360.000
	360.000
Dividends	(160.000)
Retained Earnings December 31, 1990	200.000

Periodic Inventory Method

1	_____ Dec. 5	_____		
	Cash		10.000.000.-	
		Capital		10.000.000.
2	_____ 19	_____		
	Furniture and Fixture		800.000.-	
		Cash		800.000.-
3	_____ 12	_____		
	Miscellaneous expenses		220.000.-	
		Cash		220.000.-
4	_____ 17	_____		
	Rent expense		200.000.-	
		Cash		200.000.-
5	_____ 21	_____		
	Building		12.000.000.-	
		Cash		4.000.000.-
		Accounts payable		8.000.000.-
	_____	_____		

6	Purchases	6.000.000.-		
	Accounts payable			6.000.000.-
7	Cash	3.700.000.-		
	Sales			3.700.000.-
8	Purchases	3.600.000.-		
	Cash			3.600.000.-
9	Accounts Receivable	2.880.000.-		
	Sales			2.880.000.-
10	Dividends	160.000.-		
	Cash			160.000.-
11	Accounts Payable	600.000.-		
	Cash			600.000.-
12	Salaries Expense	400.000.-		
	Cash			400.000.-
13	Inventory	9.600.000.-		
	Purchases			9.600.000.-
14	CGS	5.400.000.-		
	Inventory			5.400.000.-
15	Revenue end expense	6.220.000.-		
	Misc. expenses			220.000.-
	Rent expense			200.000.-
	Salaries expense			400.000.-
	CGS			5.400.000.-
16	Sales	6.580.000.-		
	Revenue and Expense			6.580.000.-
17	Revenue and expense	360.000.-		
	Retained Earnings			360.000.-
18	Retained Earnings	160.000.-		
	Dividends			160.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

19 _____ 31 _____

Capital		10.000.000.-
Accounts Payable		13.400.000.-
Retained Earnings		200.000.-
Cash	3.720.000.-	
Accounts Receivable	2.880.000.-	
Building	12.000.000.-	
Furniture Fixture	800.000.-	
Inventory	4.200.000.-	

Ending Inventory : 4.200.000.-

To find CGS:

Beginning Inventory	0
Purchases	+ 9.600.000
Goods Available for Sale	9.600.000
Ending Inventory	– 4.200.000
CGS	5.400.000

Purchases

6.000.000	
3.600.000	
9.600.000	9.600.000

Inventory

9.600.000	5.400.000
	(4.200.000)
9.600.000	9.600.000

CGS

5.400.000	5.400.000

Sales

6.580.000	3.700.000
	2.880.000
6.580.000	6.580.000

Cash

10.000.000	800.000
3.700.000	220.000
	200.000
	4.000.000
	3.600.000
	160.000
	600.000
	400.000
13.700.000	9.980.000
	(3.720.000)
13.700.000	13.700.000

Capital

(10.000.000)	10.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Furniture and Fixture

800.000	(800.000)

Miscellaneous Expense

220.000	220.000

Rent Expense

200.000	200.000

Building

12.000.000	(12.000.000)

Accounts Payable

600.000	8.000.000
	6.000.000
600.000	14.000.000
(13.400.000)	
14.000.000	14.000.000

Accounts Receivable

2.880.000	(2.880.000)

Dividents

160.000	160.000

Salaries Expense

400.000	400.000

Revenue and Expense

6.220.000	6.580.000
360.000	
6.580.000	6.580.000

Retained Earnings

160.000	360.000
(200.000)	
360.000	360.000

Single Merchandise Account

1	_____	Dec. 5	_____		
	Cash			10.000.000.-	
			Capital		10.000.000.
2	_____	19	_____		
	Furniture and Fixture			800.000.-	
			Cash		800.000.-
3	_____	12	_____		
	Miscellaneous expenses			220.000.-	
			Cash		220.000.-
4	_____	17	_____		
	Rent expense			200.000.-	
			Cash		200.000.-
5	_____	21	_____		
	Building			12.000.000.-	
			Cash		4.000.000.-
			Accounts payable		8.000.000.-
6	_____	22	_____		
	Merchandise			6.000.000.-	
			Accounts payable		6.000.000.-
	_____		_____		

7		23			
	Cash			3.700.000.-	
			Merchandise		3.700.000.-
8		24			
	Merchandise			3.600.000.-	
			Cash		3.600.000.-
9		25			
	Accounts Receivable			2.880.000.-	
			Merchandise		2.880.000.-
10		26			
	Dividends			160.000.-	
			Cash		160.000.-
11		28			
	Accounts Payable			600.000.-	
			Cash		600.000.-
12		30			
	Salaries Expense			400.000.-	
			Cash		400.000.-
13		31			
	Merchandise			1.180.000.-	
			Revenue and Expense		1.180.000.-
14		31			
	Revenue and Expense			6.220.000.-	
			Salaries expense		400.000.-
			Rent expense		200.000.-
			CGS		5.400.000.-
			Misc. expense		220.000.-
15		31			
	Revenue and Expense			360.000.-	
			Retained Earnings		360.000.-
16		31			
	Retained Earnings			160.000.-	
			Dividends		160.000.-
17		31			
	Capital			10.000.000.-	
	Accounts Payable			13.400.000.-	
	Retained Earnings			200.000.-	
			Cash		3.720.000.-
			Accounts Receivable		2.880.000.-
			Building		12.000.000.-
			Furniture and Fixture		800.000.-
			Inventory		4.200.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

Merchandise	
6.000.000	3.700.000
3.600.000	2.880.000
9.600.000	6.580.000
1.180.000	
10.780.000	6.580.000

ÜNİVERSİTESİ YAYINEVİ

	Ending Inventory 4.200.000
Beginning Inventory	0
Purchases	+ 9.600.000
Goods Available for Sale	9.600.000
Ending Inventory	- 4.200.000
CGS	5.400.000
Sales	6.580.000
Gross Profit on Sales	1.180.000

Revenue and Expense	
820.000	1.180.000

360.000 net income.

27. THE ADJUSTMENT PROCESS

The things that happen to the business are recorded in its journal as they occur. Then the effects of these transactions on the accounts are classified by posting to the ledger. The amount of each account and their balances are determined periodically and a trial balance is prepared. These steps occur frequently or at least more than once during an accounting period. "Accounting period" or "fiscal period" is a calendar year and begins on January 1, ends on December 31. There are a very important set of steps in the accounting process that occur only once each accounting period. These steps are carried out only at the end of each accounting period and are are known as end-of period procedures. An accounting system does not automatically provide for completeness and correctness of the accounts.In fact the balance of the accounts should reflect recent happenings. Therefore certain accounting entries are necessary in cases where the accounts do not reflect the financial position (assets, liabilities, capital) of the firm or the net income (revenues, expenses) of the firm. If the balance of the accounts are not stated properly, then the income statement, the balance sheet and the retained earnings statement will be in error. In fact the balance sheet of a business must contain all assets and equities as of December 31. The income statement must contain all revenues and expenses appicable to the period ending on December 31, 19XX.

The function of adjusting journal entries is to correct the accounts or to bring them up to date so that the statements based on them will reveal net income and assets and equities. Therefore adjusting entries are necessary to measure income and financial position accurately. Adjusting entries also make financial statements comparable from one period to the next. Adjusting entries involve both income statement and balance sheet accounts. They are an essential part of accrual accounting because they facilitate the matching of revenues and expenses. The adjusting entries are first journalized and then posted to the appropriate ledger accounts when they are determined. Adjusting entries have at least one balance sheet account entry and at least one income statement account entry.

Adjusting entries are a special category of transactions. The principle adjusting entries can be classified into four types:

- Expense Accrual
- Revenue Accrual
- Cost Apportionment
- Revenue Apportionment

270. EXPENSE ACCRUAL

At the end of an accounting period, there are usually expenses that have been incurred but not recorded in the accounts. These expenses require adjusting entries. The primary examples of this type of adjustments are accrual of salaries and interest. Those kinds of expenses are recorded either when paid, or when the end of the accounting period occurs between the time the expense was incurred and the payment is due.

Assume that the salesmen's salaries are 1.500.000 TL per month, payable on the 10th of the following month. On December 31, the December salaries have not been recorded for 20 days even though the cost has been incurred. Also an unrecorded liability for these salaries exists on December 31. The adjusting entry is;

Dec. 31		
Salesmen's Salary Expense	1.000.000.-	
Salaries Payable		1.000.000.-

Assume that "X" company borrowed 100.000.000.- on November 30, 1989. The principal and interest on the one-year loan are payable on November 30, 1990. The interest rate is 9 percent.

"X" Co. has had the benefit of a 100.000.000.- bank loan for one month as of December 31, 1989. As the creditor, the bank is owed for the use of money as of

December 31, 1989 in an amount of 1/12 x 0,09 x 100.000.000 = 750.000. These money services of 750.000.- have been acquired and used up, because "X" Co. has had the loan for one month. The adjusting entry is

Dec. 31		
Interest Expense	750.000.-	
Interest Payable		750.000.-

Therefore, if a company has incurred an expense for which no transaction entry has been made, an expense account must be debited and a liability account must be credited.

271. REVENUE ACCRUAL

Any revenue that has been earned but not recorded during the accounting period requires an adjusting entry at the end of an accounting period. For example, the interest on short trem investments (marketable debt securities) is earned day by day but may not actually be received until another accounting period. Therefore interest is earned with the passage of time, but is not recorded everyday. Revenue which is earned on assets leased to others is not recorded until the cash is received, except at the end of the accounting period.

Assume that "X" Co. has interest bearing bonds on hand. They are purchased for 1.000.000 on July 1, 1989. The interest will be paid on July 1, 1990. On December 31, 1989 "X" Co. must accrue interest revenue for bonds. The annual interest rate is 12 percent. Therefore the interest revenue in an amount of 6/12 x 0.12 x 1.000.000 = 60.000 has been earned. "Interest Revenue" should be credited and "Interest Receivable" debited for the interest accrued in the current period.

Dec. 31		
Interest Receivable	60.000.-	
Interest Revenue		60.000.-

Assume that rents totaling 500.000 which have been earned but not collected for the month of December have not been recorded yet. The adjusting entry is:

Dec. 31		
Rents Receivable	500.000.-	
Rent Revenue		500.000.-

Any revenue - producing activity which is performed during the period but for which payment will be coming later, is subject to the same type of adjustment. Other examples of accrued revenues and receivables include unbilled fees. If a company has earned revenue for which no transaction entry has been made, an asset account is debited and a revenue account is credited.

272. COST APPORTIONMENT

When an expense that will benefit more than one period takes place, the unused or unexpired portion of that expense is called prepaid expense. These expenses must be apportioned between periods according to their usefulness. The part of the expenditure that has benefited current operations must be treated as an expense of the period and the part not expired must be treated as an asset, relevant to the future operations of the company. During the year a company might pay fire insurance premiums covering a three-year period. If the two years' insurance premiums are still unused at the end of the first year, it must take place in the balance sheet. Therefore payments made in advance from which the company has not yet received the benefits but for which it will receive benefits in the next accounting years are listed as "prepaid expenses" (prepayments) among the assets.In fact it is not reasonable to charge off the full expenditure in the year when payment is made. Instead the cost incurred may be gradually written off over the next several years.

Assume that a firm purchases substantial quantities of heating oil for a store building. The purchases total 3.000.000.- and are debited to an asset account (Prepaid expense). At the end of the period oil estimated at 2.000.000.- is left in the tanks.An expense account must reflect the cost of the oil used (1.000.000.-) and the remaining 2.000.000 must appear as an asset in the balance sheet.

The original transaction was as follows: (Prepayment was debited to an asset account)

Prepaid expense		3.000.000.-	
	Cash		3.000.000.-

The adjusting entry to correct an understated expense;

Dec. 31			
Heating expense		1.000.000.-	
	Prepaid expense		1.000.000.-

Assume that the firm debited the 3.000.000.- purchase of heating oil directly to Heating oil directly to Heating expense on the assumption that all of the heating oil would be consumed during the period. The adjusting entry will be different.

The original transaction was as follows; (Prepayment was debited to an expense account)

Heating expense		3.000.000.-	
	Cash		3.000.000.-

The adjusting entry to correct an overstated expense

Dec. 31

Prepaid expense		2.000.000.-	
	Heating expense		2.000.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

Similar alternatives are applied to rent, supplies and other prepayments. On the other hand recording periodic depreciation expense is an example of a cost apportionment adjusting entry.

Depreciation expense represents an estimate of the cost of the services of a long - lived asset used during the period in the generation of revenues (18). Fixed assets sometimes referred to as property, plant and equipment are those assets which are not intended for sale. They are used oyer and over again in order to manufacture the product, display it, warehouse it, transport it. Land, buildings, machinery, equipment, furniture, automobiles and trucks are included in this category. Fixed assets don't last forever. Depreciation is the decline in useful value of a fixed asset due to wear and tear from use and passage of time. Fixed assets may also suffer a decline in useful value from obsolescence, because new inventions and more advenced techniques come to light which make the present eqiupment out of date. Therefore the cost incurred to acquire the property plant and equipment must be spread over their expected useful life. For example if an auto-truck costs 10.000.000.- and is expected to last five years, it will decline at the rate of 2.000.000.- each year. At the end of each accounting period, the journal entry will be as follows:

Dec. 31

Depreciation expense		2.000.000.-	
	Auto-truck		2.000.000.-

In accounting practice the credit entry is generally made to a separate account called "accumulated depreciation". The accumulated depreciation account with its credit balance serves as a deduction from the related asset account (auto-truck). The purpose of the Accumulated Depreciation Account is to show how much of the cost of the plant and equipment has been allocated as an expense to previous accounting periods. There are various methods of computing depreciation. Under the straight - line method, depreciation is computed by dividing cost of the fixed asset by its useful life. The same depreciation charge will take place at the end of each accounting period.

(18) Spiller A.Earl, Financial Accounting, 1971, s. 88.

273. REVENUE APPORTIONMENT

Revenues may be received in advance before they are earned. When the revenue that will benefit more than one period takes place, the unearned portion of the revenue is called "revenue collected in advance".

If a business receives cash from a customer before performing any service, an asset will increase, and the increase will be the result of a profit - seeking activity.

In fact at that moment nothing has been done by the business to earn revenue. The business has obliged itself to deliver the service by accepting cash from its customer. Assets have increased as well as liabilities. When the service is delivered to the customer, the asset is earned resulting in the creation of revenue.

Assume that customers paid 100.000.000.- for magazine subscriptions during the accounting period. 15.000.000.- represented payments for magazines to be delivered in subsequent periods.

A Liability account is credited on receipt of cash during the current period as follows:

Cash		100.000.000.-	
	Revenue collected in advance (unearned subscriptions)		100.000.000.-

The adjusting entry at the end of the period will be;

Dec. 31			
Revenue collected in advance (unearned subscriptions)		85.000.000.-	
	Subscriptions Revenue		85.000.000.-

The revenue account may be credited on receipt of cash during the current period.

Cash		100.000.000.-	
	Subscriptions Revenue		100.000.000.-

The adjusting enry at the end of the period will be:

	Dec. 31		
Subscriptions revenue		15.000.-	
	Revenue Collected in advance		15.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

Assume that "Y" Company owns an office building and decides to rent part of this building to another firm. A lease agreement is signed on December 10, 1989, which provides that a rental of 960.000., per month is to be made; the first month's rent is due on January 10 of the next year. The rent earned by "Y" Company in 1989 is computed as follows;

2/3 month x 960.000 = 640.000.-

An adjusting entry is required to record the rnet earned but not yet received;

	Dec. 31		
Rent receivable		640.000.-	
	Rent revenue		640.000.-

Problem 6

XYZ Corporation
Unadjusted Trial Balance
December 31, 1989

	Debit	Credit	Debit	Credit
Cash	95.000.000	78.500.000	16.500.000	
Cash in Bank	10.000.000	5.000.000	5.000.000	
Accounts Receivable	81.000.000	70.000.000	11.000.000	
Merchandise Inventory	60.000.000	48.000.000	12.000.000	
Building	12.000.000		12.000.000	
Accounts Payable	40.000.000	60.000.000		20.000.000
Capital Stock		30.000.000		30.000.000
Sales		81.000.000		81.000.000
Cost of Goods Sold	48.000.000		48.000.000	
Salaries Expense	18.000.000		18.000.000	
Rent Expense	4.800.000		4.800.000	
Other Expenses	5.200.000		5.200.000	
Salaries Payable		1.500.000		1.500.000
	374.000.000	374.000.000	132.500.000	132.500.000

Data for Adjustments

Accured amounts for the year end

1 - Interest receivable 800.000.-

2 - Interest payable 600.000.-

3 - Depreciation of buildings, 600.000.-

4 - Prepaid rent 500.000.-

5 - Unpaid salaries, 300.000.-

6 - At the end of the period cash count shows 17.000.000.-

7 - 1.000.000.- is determined as doubtful account

8 - 500.000.- valued inventory had been excluded from the ending inventory because they were not on hand when the inventory count was made. These units were stolen.

Required:

1 - Make and post journal entries for any necessary adjustments

2 - Prepare adjusted trial balance

3 - Prepare closing balance sheet

Solution to Problem 6

Interest Receivable		800.000.-	
	Interest Revenue		800.000.-
Interest Expense		600.000.-	
	Interest Payable		600.000.-
Depreciation Expense		600.000.-	
	Accumulated Depreciation		600.000.-
Prepaid Rent		500.000.-	
	Rent expense		500.000.-
Salaries expense		300.000.-	
	Salaries Payable		300.000.-
Cash		500.000.-	
	Cash over and Short		500.000.-

Doubtful Accounts		1.000.000.-	
	Accounts Receivable		1.000.000.-
Miscallenous Expense		1.000.000.-	
	Allowance for Doubtful Accounts		1.000.000.-
Revenue and Expense		500.000.-	
	Merchandise Inventory		500.000.-
Sales		81.000.000.-	
Interest Revenue		800.000.-	
	Revenue anad Expense		81.800.000.-
Revenue and Expense		78.000.000.-	
	Cost of Goods Sold		48.000.000.-
	Salaries Expense		18.300.000.-
	Rent Expense		4.300.000.-
	Other Expenses		5.200.000.-
	Miscallenous Expense		1.000.000.-
	Interest Expense		600.000.-
	Depreciation Expense		600.000.-
Revenue and Expense		3.300.000.-	
	Retained Earnings		3.300.000.-
Accounts Payable		20.000.000.-	
Accumulated Depreciation		600.000.-	
Interest Payable		600.000.-	
Cash Over and Short		500.000.-	
Allowance for Doubtful Accounts		1.000.000.-	
Salaries Payable		1.800.000.-	
Capital Stock		30.000.000.-	
Retained Earnings		3.300.000.-	
	Cash		17.000.000.-
	Cash in Bank		5.000.000.-
	Accounts Receivable		10.000.000.-
	Merchandise Inventory		11.500.000.-
	Interest Receivable		800.000.-
	Doubtful Accounts		1.000.000.-
	Building		12.000.000.-
	Prepaid Rent		500.000.-

Cash	
16.500.000	17.000.000
500.000	
17.000.000	

Cash in Bank	
5.000.000	5.000.000

Accounts Receivable	
11.000.000	1.000.000
	10.000.000
	11.000.000

Merchandise Inventory	
12.000.000	500.000
	11.500.000
	12.000.000

Cash over and Short	
500.000	500.000

Interest Receivable	
800.000	800.000

Doubtful Accounts	
1.000.000	1.000.000

Building	
12.000.000	12.000.000

Accounts Payable	
20.000.000	20.000.000

Capital Stock	
30.000.000	30.000.000

Sales	
81.000.000	81.000.000

Accumulated Depreciation	
600.000	600.000

Interest Payable	
600.000	600.000

Interest Revenue	
800.000	800.000

Cost of Goods Sold	
48.000.000	48.000.000

Salaries Expense	
18.000.000	18.300.000
300.000	
18.300.000	

Rent Expense	
4.800.000	500.000
	4.300.000
	4.800.000

Other Expense	
5.200.000	5.200.000

Miscellaneous Expense	
1.000.000	1.000.000

Allowance for Doubtful Accounts	
1.000.000	1.000.000

Salaries Payable	
1.800.000	1.500.000
	300.000
	1.800.000

Interest Expense	
600.000	600.000

Prepaid Rent	
500.000	500.000

Revenue and Expense	
500.000	81.800.00
78.000.000	
78.500.000	81.800.000
3.300.000	
81.800.000	

Retained Earning	
3.300.000	3.300.000

Depreciation Expense	
600.000	600.000

XYZ Corporation
Adjusted Trial Balance
December 31, 1989

	Debit	Credit	Debit	Credit
Cash	17.000.000	–	17.000.000	–
Cash in Bank	5.000.000	–	5.000.000	–
Accounts Receivable	11.000.000	1.000.000	10.000.000	–
Merchandise Inventory	12.000.000	500.000	11.500.000	–
Interest Receivable	800.000	–	800.000	–
Doubtful Accounts	1.000.000	–	1.000.000	–
Building	12.000.000	–	12.000.000	–
Prepaid Rent	500.000	–	500.000	–
Accounts Payable	–	20.000.000	–	20.000.000
Accumulated Depreciation	–	600.000	–	600.000
Interest Payable	–	600.000	–	600.000
Allowance for Doubtful Accounts	–	1.000.000	–	1.000.000
Salaries Payable	–	1.800.000	–	1.800.000
Capital Stock	–	30.000.000	–	30.000.000
Revenue and Expense	81.800.000	81.800.000	–	–
Cash Over and Short	–	500.000	–	500.000
Sales	81.000.000	81.000.000	–	–
Interest Revenue	800.000	800.000	–	–
Cost of Goods Sold	48.000.000	48.000.000	–	–
Salaries Expense	18.300.000	18.300.000	–	–
Rent Expense	4.800.000	4.800.000	–	–
Other Expenses	5.200.000	5.200.000	–	–
Bad Debt Expense	1.000.000	1.000.000	–	–
Interest Expense	600.000	600.000	–	–
Deprecaition Expense	600.000	600.000	–	–
Retained Earnings	–	3.300.000	–	3.300.000
TOTAL	301.400.000	301.400.000	57.800.000	57.800.000

XYZ Corporation
Balance Sheet
December 31, 1989

Assets		Liabilities and Owners' Equity	
Cash	17.000.000.-	Capital Stock	30.000.000.-
Cash in Bank	5.000.000.-	Retained Earnings'	3.300.000.-
Accounts Receivable	10.000.000.-	Accumulated Depreciation	600.000.-
Merchandise Receivable	11.500.000.-	Interest Payable	600.000.-
Interest Receivable	800.000.-	Allowance for Doubtful Accouns	1.000.000.-
Doubtful Accounts	1.000.00.-	Accounts Payable	20.000.000.-
Prepaid Rent	500.000.-	Salaries Payable	1.800.000.-
Building	12.000.000.-	Cash Over and Short	500.000.-
	57.800.000.-		57.800.000.-

28. THE CLOSING PROCESS

The closing process utilizes four relatively simple steps (19):

A new account called "income summary" ("Revenue and Expense summary", "Profit and Loss") is established. It is a temporary account to which all revenues and expenses are closed and which, itself, is closed to retained earnings.

Each revenue and expense account is closed into (transferred to) income summary.

The balance of income summary is then closed into retained earnings.

Dividends are also closed into retained earnings.

The closing process is the last step in the accounting cycle. This last step in the cycle is designed to prepare the accounts of the business for the new accounting period. When the closing process is complete, all revenues, expenses and income summary account carry zero balances into the new period. Dividends account is also closed by transferring the amount to retained earnings. Retained earnings goes up by the amount of net income for the period and it goes down by dividends for the period. All figures that appear on the retained earnings statement also appear in the retained earnings account.

(19) Eskew, K. Robert, Jensen, L. Daniel, Financial Accounting, 1983, p. 174.

280. CLOSING THE REVENUE ACCOUNTS

MARMARA ÜNİVERSİTESİ YAYINEVİ

Revenue accounts have credit balances. At the end of each accounting period they are closed by transferring their credit balances to "Revenue and Expense Summary" Account. For this reason an entry debiting each revenue account in the amount of its balance is needed to close the account. The credit part of the entry is made to the Revenue and Expense Summary Account. The compound journal entry that closes three revenue accounts for "X" Company is as follows;

Dec. 31			
Sales Revenue		2.000.000.-	
Interest Revenue		400.000.-	
Rent Revenue		300.000.-	
	Revenue and Expense Summary Account		2.700.000.-

281. Closing the Expense Accounts

Expense accounts have debit balances. At the end of each accounting period, they are closed by transferring their debit balances to the Revenue and Expense Summary Account. For this reason an entry debiting each expense account in the amount of its balance is needed to close the account. The debit part of the entry is made to the Revenue and Expense Summary Account. The compound journal entry that closes five expense accounts for 'X' Company is as follows;

Dec. 31			
Revenue and Expense Summary		1.900.000.-	
	Insurance Expense		20.000.-
	Salaries Expense		390.000.-
	Depreciation Expense		70.000.-
	Cost of Goods Sold		1.400.000.-
	Advertising Expense		20.000.-

The effect of posting the closing entries to the ledger accounts is shown below.

Revenue and Expense Summary	
1.900.000	2.700.000

Insurance Expense	
20.000	20.000

Sales Revenue	
2.000.000	2.000.000

Net Income = 800.000
(Credit Balance of Revenue and Expense Summary)

Salaries Expense	
390.000	390.000

Interest Revenue	
400.000	400.000

Depreciation Expense	
70.000	70.000

Rent Revenue	
300.000	300.000

Cost of Goods Sold	
1.400.000	1.400.000

Advertising Expense	
20.000	20.000

282. CLOSING THE REVENUE AND EXPENSE SUMMARY ACCOUNT

When revenues exceed expenses Revenue and Expense Summary will have a credit balance (net income) and is closed with a debit equal to that balance. The corresponding credit is to retained earnings.

Dec. 31

Revenue and Expense Summary	800.000.-	
Retained Earnings		800.000.-

Revenue and Expense	
1.900.000	2.700.000
800.000	
2.700.000	2.700.000

When expenses exceed revenues (net loss) Revenue and Expense Summary has a debit balance and is closed with a credit equal to that balance. The corresponding debit is to retained earnings. In fact the Revenue and Expense Summary account balance, regaradless of its nature must be closed to the Retained earnings Account. If the occurance of net losses cause the retained earnings account to have a debit balance (deficit), then the debit balance of the retained earnings account will be deducted from the owners' equity on the equity side of the balance sheet.

283. CLOSING THE DIVIDENDS ACCOUNT

The dividends account is closed into retained earnings with the following entry:

Dec. 31			
Retained Earnings		600.000.-	
	Dividends		600.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

Dividends	
600.000	600.000

Retained Earnings	
600.000	800.000

Credit Balance: 200.000

The closing process not only leaves the revenue, expense and dividends accounts with zero balances, but also produces in the Retained Earnings account a balance representing the amount of retained earnings at the end of the year.

After all the steps in the closing process have been completed, the account balances are carried forward to start the new accounting period. Such accounts are called permanent or real accounts, because they continue from one accounting period to another. In contrast to these permanent accounts are the revenue and expense accounts (nominal accounts) which appear on the income statement at the end of the accounting period. The closing process necessitates making such entries in all nominal accounts and balancing and ruling the real asset, liability and owners' equity accounts. "Ruling the open accounts" is a special term used by accountants.

The bookkeeper may rule up the open accounts and bring down their balances. The closed accounts are ruled with double lines. When the accounts contain only one entry on each side, totals are unnecessary and the accounts are ruled with double lines only.

Problem 7

Jackson Electronics is a newly organized individual proprietorship. The transactions occured in Decembeer 1989 are given below:

Dec. 1 - The owner invested 20.000.000 TL for capital in cash.
3 - An office building was purchased in cash for 6.000.000 TL.
7 - Paid rent for the store 400.000 TL for the month December
9 - Purchased merchandise on account from Block Co. for 4.000.000 TL
13 - Advertising expense paid to a weekly magazine 1.000.000 TL.
15 - Sold merchandise in cash, 1.600.000TL
17 - Paid 1.400.000 TL to settle the account to Block Co.
21 - The owner withdrew 200.000 TL in cash.

23 - Paid 120.000 TL for miscellaneous expenses and 80.000 TL for advertising expenses.
26 - Purchased merchandise on account from Block Co., 5.000.000 TL.
27 - Sold merchandise on account to ABC Co., 3.600.000 TL.
28 - Sold merchandise in cash 1.600.000 TL.
30 - Payroll prepared for December 1989. According to Payroll Summary, Gross Salaries for 3 employees are 400.000 TL; Withholdings (Deductions) computed for income Tax 100.000 TL, for Stamp Duty 1.600 TL; Social Security Premiums 56.000 TL; Net salaries 242.400 TL is paid in cash; Social security premiums levied on the employers computed as 80.000 TL.

Additional Information

1 - Cost of the goods on hand as of December 31, 1989 is 3.800.000 TL
2 - Building is subject to 10 % depreciation.

Required

- Journalize the transactions
- Post
- Make and post the journal entries necessary to close the books
- Prepare the Income Statement and the Balance Sheet as of December 1989

Solution to Problem 7

		1989			
1		Dec. 1			
	Cash			20.000.000.-	
			Capital		20.000.000.
2		3			
	Building			6.000.000.-	
			Cash		6.000.000.-
3		7			
	Rent expense			400.000.-	
			Cash		400.000.-
4		9			
	Purchases			4.000.000.-	
			Accounts Payable		4.000.000.-
5		13			
	Advertising expense			1.000.000.-	
			Cash		1.000.000.-
		/			

6		15			
	Cash				
			Sales	1.600.000.-	1.600.000.-
7		17			
	Accounts Payable				
			Cash	1.400.000.-	1.400.000.-
8		21			
	Drawing Account				
			Cash	200.000.-	200.000.-
9		23			
	Miscellaneous expense			120.000.-	
	Advertising expense			80.000.-	
			Cash		200.000.-
10		26			
	Purchases				
			Accounts Payable	5.000.000.-	5.000.000.-
11		27			
	Accounts Receivable				
			Sales	3.600.000.-	3.600.000.-
12		28			
	Cash				
			Sales	1.600.000.-	1.600.000.-
13		30			
	Salaries expense			400.000.-	
			Income Tax Payable		100.000.-
			Stamp Duty Payable		1.600.-
			S.S. Premiums Payable		56.000.-
			Cash		242.400.-
14		30			
	Salaries Expense			80.000.-	
			S.S. Premiums Payable		80.000.-
15		31			
	Inventory			9.000.000.-	
			Purchases		9.000.000.-
16		31			
	CGS			5.200.000.-	
			Inventory		5.200.000.-
17		31			
	Depreciation expense			600.000.-	
			Accumulated depreciation		600.000.-
18		31			
	Sales			6.800.000.-	
			Revenue and expense		6.800.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

19	——— 31	———		
	Revenue and expense		7.880.000.-	
		Rent expense		400.000.-
		Advertising Expense		1.080.000.-
		Salaries expense		480.000.-
		Depreciation expense		600.000.-
		CGS		5.200.000.-
		Miscellaneous expense		120.000.-
20	——— 31	———		
	Drawing account		1.080.000.-	
		Revenue and expense		1.080.000.-
21	——— 31	———		
	Capital		20.000.000.-	
	Accounts Payable		7.600.000.-	
	Income Tax Payable		100.000.-	
	Stamp Duty Payable		1.600.-	
	S.S. Premiums Payable		136.000.-	
	Accumulated Depreciation		600.000.-	
		Cash		13.757.600.-
		Accounts Receivable		3.600.000.-
		Inventory		3.800.000.-
		Building		6.000.000.-
		Drawing Account		1.280.000.-

———

———

Cash

20.000.000	6.000.000
1.600.000	400.000
1.600.000	1.000.000
	1.400.000
	200.000
	200.000
	242.400
23.200.000	9.442.400
	13.757.600
23.200.000	23.200.000

Capital

20.000.000	20.000.000

Building

6.000.000	6.000.000

Rent Expense

400.000	400.000

Purchases

4.000.000	
5.000.000	
9.000.000	9.000.000

Accounts Payable

1.400.000	4.000.000
	5.000.000
1.400.000	9.000.000
7.600.000	
9.000.000	9.000.000

Advertising Expense

1.000.000	
80.000	
1.080.000	1.080.000

Accumulated Depreciation

600.000	600.000

Sales	
	1.600.000
	3.600.000
	1.600.000
6.800.000	6.800.000

Miscellaneous Expense	
120.000	120.000

Accounts Receivable	
3.600.000	3.600.000

Salaries Expense	
400.000	
80.000	
480.000	480.000

Income Tax Payable	
100.000	100.000

Stamp Duty Payable	
1.600	1.600

S.S. Premiums Payable	
	56.000
	80.000
136.000	136.000

Inventory	
9.000.000	5.200.000
	3.800.000
9.000.000	9.000.000

COGS	
5.200.000	5.200.000

Depreciation Expense	
600.000	600.000

Revenue and Expense	
7.880.000	7.880.000
	1.080.000
7.880.000	7.880.000

Drawing Account	
200.000	
1.080.000	
1.280.000	1.280.000

Jackson Electronics
Balance Sheet
December 31, 1989

Assets		Liabilities and Owners' Equity	
Cash	13.757.600.-	Capital Stock	20.000.000.-
Accounts Receivable	3.600.000.-	Accounts Payable	7.600.000.-
Inventory	3.800.000.-	Income Tax Payable	100.000.-
Building	6.000.000.-	Stamp Duty Payable	1.600.-
Drawing Account	1.280.000.-	S.S. Premiums Payable	136.000.-
		Accumulated Depreciation	600.000.-
	28.437.600.-		28.437.600.-

MARMARA ÜNİVERSİTESİ YAYINEVİ



MARMARA
ÜNİVERSİTESİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ

7		Nov. 8		900.000.-	
	Furniture		Cash		900.000.-
8		16		800.000.-	
	Stationary expense		Cash		800.000.-
9		21		1.500.000.-	
	Cash		Sales		1.500.000.-
10		29		1.500.000.-	
	Accounts Payable		Notes Payable		1.500.000.-
11		30		100.000.-	
	Dividends		Cash		100.000.-
12		Dec. 1		6.000.000.-	
	Purchases		Accounts Payable		6.000.000.-
13		6		2.000.000.-	
	Notes Receivable		Accounts Receivable		2.000.000.-
14		6		2.000.000.-	
	Accounts Payable		Notes Receivable		2.000.000.-
15		31		70.000.-	
	Miscellaneous expense		Cash		70.000.-
16		17		2.000.000.-	
	Notes Receivable		Sales		2.000.000.-
17		20		200.000.-	
	Transportation expense		Cash		200.000.-
18		30		100.000.-	
	Dividends		Cash		100.000.-
19		31		11.000.000.-	
	Inventory		Purchases		11.000.000.-
20		31		3.000.000.-	
	CGS		Inventory		3.000.000.-
21		31		600.000.-	
	Prepaid expense		Stationary expense		600.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

22	_____ 31	_____		
	Depreciation expense		390.000.-	
		Accumulated Depreciation		390.000.-
		Furniture 90.000.-		
		Trucks 300.000.-		
23	_____ 31	_____		
	Revenue and Expense		4.390.000.-	
		CGS		3.000.000.-
		Rent expense		150.000.-
		Miscelaneous expense		150.000.-
		Stationary expense		200.000.-
		Transport. expense		500.000.-
		Depreciation expense		390.000.-
25	_____ 31	_____		
	Sales		6.500.000.-	
		Revenue and Expense		6.500.000.-
26	_____ 31	_____		
	Revenue and Expense		2.110.000.-	
		Retained Earnings		2.110.000.-
27	_____ 31	_____		
	Retained Earnings		200.000.-	
		Dividends		200.000.-
28	_____ 31	_____		
	Accumulated Depreciation		390.000.-	
	Capital Stock		20.000.000.-	
	Retained Earnings		1.910.000.-	
	Accounts Payable		8.300.000.-	
	Notes Payable		3.000.000.-	
		Cash		18.650.000.-
		Accounts Receivable		1.000.000.-
		Notes Receivable		2.000.000.-
		Prepaid Expense		1.050.000.-
		Inventory		8.000.000.-
		Furniture		900.000.-
		Trucks		2.000.000.-
_____		_____		

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ 1883

MARMARA
ÜNİVERSİTESİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ 1883

Brown Co.
Income Statement and Statement of Retained Earnings
for the Year Ending December 31, 1990

Sales		6.500.000
CGS		(3.000.000)
Beginning Inventory	–	
Purchases	11.000.000	
Goods Available for Sale	11.000.000	
Ending Inventory	– 8.000.000	
	3.000.000	
Gross Profit on Sales		3.500.000
Operating Expenses		(1.390.000)
Rent Expense	150.000	
Misc. expense	150.000	
Stationary expense	200.000	
Transport expense	500.000	
Depreciation expense	390.000	
	1.390.000	
Net income		2.110.000
Retained Earnings (Beginning)		—
Subtotal		2.110.000
Dividends		(200.000)
Retained Earnings (Ending)		1.910.000

284. WORKING PAPERS

The Work Sheet (also called a working paper) is a columnar approach to moving from a trial balance to the finished financial statements (19). It provides an orderly means for

- preparing adjusting entries
- computing net income
- preparing the financial statements
- closing the books.

Although a worksheet is not essential to obtaining financial statements, it is a valuable informal device for bringing everything together in a single place. A worksheet might include columns as follows,

(19) Horngren, T. Charles, Introduction to Financial Accounting, 1981, p. 180.

WORKING PAPERS

..... 19....

Acc. No.	ACCOUNTS	Total		Balance		Adjustments		Adjusted Trial Balance		(Income Statement) Revenue and Expense Ac.		Retained Earnings Statement		Balance Sheet	
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Expense	Revenue	Debit	Credit	Assets	Liab./ O.E
	Total														

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ 1883

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA UNIVERSITESI 1883

MARMARA
ÜNİVERSİTESİ

6		18			
	Purchases			8.000.000.-	
	Acc. Payable				8.000.000.-
7		26			
	Accounts Receivable			5.000.000.-	
	Sales				5.000.000.-
8		30			
	Cash			1.000.000.-	
	Sales				1.000.000.-
9		Dec. 3			
	Cash			1.500.000.-	
	Accounts Receivable				1.500.000.-
10		8			
	Dividends			200.000.-	
	Cash				200.000.-
11		11			
	Purchases			3.000.000.-	
	Cash				3.000.000.-
12		Dec. 1			
	Accounts payable			800.000.-	
	Cash				800.000.-
13		20			
	Adventising expense			60.000.-	
	Cash				60.000.-
14		20			
	Purchases			1.500.000.-	
	Cash				1.500.000.-
15		20			
	Miscellaneous expense			60.000.-	
	Cash				60.000.-
16		30			
	Accounts Receivable			2.000.000.-	
	Sales				2.000.000.-
17		31			
	Inventory			12.500.000.-	
	Purchases				12.500.000.-
18		31			
	CGS			6.200.000.-	
	Inventory				6.200.000.-
19		31			
	Revenue and Expense			6.640.000.-	
	CGS				6.200.000.-
	Advertising Expense				130.000.-
	Rent Expense				200.000.-
	Miscellaneous Expense				110.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

20		31		
	Sales		8.000.000.-	
	Revenue and Expense			8.000.000.-
21		31		
	Revenue and expense		1.360.000.-	
	Retained Earnings			1.360.000.-
22		31		
	Retained Earnings		200.000.-	
	Dividends			200.000.-
23		31		
	Capital Stock		6.000.000.-	
	Accounts Payable		11.200.000.-	
	Retained Earnings		1.160.000.-	
	Cash			2.560.000.-
	Accounts Receivable			5.500.000.-
	Building			4.000.000.-
	Inventory			6.300.000.-

Cash

6.000.000	50.000
1.000.000	200.000
1.500.000	70.000
	200.000
	3.000.000
	800.000
	60.000
	1.500.000
	60.000
8.500.000	5.940.000
	2.560.000
8.500.000	8.500.000

Capital

6.000.000	6.000.000

Misc. expense

50.000	
60.000	
110.000	110.000

Accounts Payable

800.000	4.000.000
	8.000.000
800.000	12.000.000
11.200.000	
12.000.000	12.000.000

Accounts Receivable

5.000.000	1.500.000
2.000.000	
7.000.000	1.500.000
	5.500.000
7.000.000	7.000.000

Building

4.000.000	4.000.000

Rent. Expense

200.000	200.000

Advertising Expense

70.000	
60.000	
130.000	130.000

Purchases

8.000.000	
3.000.000	
1.500.000	
12.500.000	12.500.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ 1883

MARMARA
ÜNİVERSİTESİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA
ÜNİVERSİTESİ

Problem 10

Balance Sheet of ABC Co. as of Dec. 31, 1989

ASSETS		LIABILITIES AND OWNERS' EQUITY	
Cash	3.130.000.-	Capital Stock	35.000.000.-
Cash in Bank	2.300.000.-	Retained Earnings	23.200.000.-
Prepaid Expense	800.000.-	Accumulated Depreciation	2.000.000.-
Accounts Receivable	11.650.000.-	Accounts Payable	13.000.000.-
Notes Receivable	2.500.000.-	Notes Payable	6.000.000.-
Inventory	35.400.000.-	Accrued Income Tax	120.000.-
Land	10.000.000.-	Accrued Social Security	
Building	12.000.000.-	Premiums	256.000.-
Trucks	1.800.000.-	Accrued Stamp Duty	4.000.000.-
	79.580.000.-		79.580.000.-

Transactions occured in 1990 are listed below:

- Sold Merchandise for 3.500.000 TL. on account to A Co.,
- Paid Rent expense in the amount of 600.000 TL.
- Received a promisory note from B Co., value of 1.000.000 TL. to settle the account
- Sold merchandise for 6.000.000 TL. receiving a check written to the order of the company. The check is deposited with "X" bank.
- Paid miscellaneous expenses for 100.000 TL.
- Purchased merchandise, value of 4.500.000 TL. on account from XY Co.
- Paid advertising expense for 150.000 TL.
- Paid Balances of Income Tax and Stamp Duty withholdings.
- Issued a check for 3.000.000 TL. to the order of XY Co.
- Paid 150.000 TL. dividends in cash.
- Purchased Merchandise cost value of 3.000.000 TL. from DD. Co., endorsing a promisory note for the same amount
- Sold merchandise for 1.200.000 TL. in cash to YV Co.
- Paid social security Premiums in the amount of 256.000 TL.
- Payroll Summary of December 1990;

Gross Salaries are 900.000 TL. Withholding for Income Tax, 120.000 TL. Stamp Duty 4.000 TL. and Social Security Premiums 96.000 TL. Net Salaries 680.000 TL. paid in cash. Social Security Premiums levied on the employers are 160.000 TL.

– The following transactions and information are determined for closing the books:

– A bill (including repairs and petrol used) received from Car Maintenance Co. value of 250.000 TL. The bill hasn't been paid yet.

– A piece of Land let out on hire to BD Co., on November 1, 1990, but rent for November and December hasn't been collected yet. Monthly rent is 75.000 TL.

– Building is subject to depreciation, % 3, Trucks are subject to Depreciation, % 15.

– Cost of Goods on hand is 14.200.000 TL.

– A bill for 200.000 TL. issued to the RR Co. for service rendered, but the bill hasn't been collected yet.

Required

– Journalize and post the transactions

– Make necessary adjustments

– Prepare Work Sheet as of December 31, 1990

– Close the books

– Prepare the Balance Sheet, the Income Statement and Statement of Retained Earnings

Solution to Problem 10

Cash	3.130.000.-	
Cash in Bank	2.300.000.-	
Prepaid expense	800.000.-	
Accounts receivable	11.650.000.-	
Notes receivable	2.500.000.-	
Inventory	35.400.000.-	
Land	10.000.000.-	
Building	12.000.000.-	
Trucks	1.800.000.-	
Capital		35.000.000.-
Retained Earnings		23.200.000.-
Accumulated Depreciation		2.000.000.-
Accounts Payable		13.000.000.-
Notes payable		6.000.000.-
Accrued Income Tax		120.000.-
Accrued S.S. Premiums		256.000.-
Accrued Stamp Duty		4.000.-

2	Accounts Receivable		3.500.000.-	
		Sales		3.500.000.-
3	Rent Expense		600.000.-	
		Cash		600.000.-
4	Notes Receivable		1.000.000.-	
		Accounts Receivable		1.000.000.-
5	Cash in Bank		6.000.000.-	
		Sales		6.000.000.-
6	Miscellaneous Expense		100.000.-	
		Cash		100.000.-
7	Inventory		4.500.000.-	
		Accounts Payable		4.500.000.-
8	Advertising Expense		150.000.-	
		Cash		150.000.-
9	Accrued Income Tax.		120.000.-	
	Accrued Stamp Duty		4.000.-	
		Cash		124.000.-
10	Accounts Payable		3.000.000.-	
		Cash in Bank		3.000.000.-
11	Dividends		150.000.-	
		Cash		150.000.-
12	Inventory		3.000.000.-	
		Notes Receivable		3.000.000.-
13	Cash		1.200.000.-	
		Sales		1.200.000.-
14	Accrued S.S. Premiums		256.000.-	
		Cash		256.000.-
15	Salaries Expense		900.000.-	
		Accrued Income Tax Payable		120.000.-
		Accrued Stamp duty Payable		4.000.-
		Accrued S.S. Premiums		96.000.-
		Cash		680.000.-

16				
	Salaries Expense		160.000.-	
		Accured S.S. Premiums		160.000.-
17				
	Repair Expense		250.000.-	
		Accounts Payable		250.000.-
18				
	Accounts Receivable		150.000.-	
		Rents Earned		150.000.-
19				
	Depreciation Expense		630.000.-	
		Accumulated Depreciation		630.000.-
20				
	CGS		28.700.000.-	
		Inventory		28.700.000.-
21				
	Accounts Receivable		200.000.-	
		Service Revenue		200.000.-
22				
	Sales		10.700.000.-	
	Rents Earned		150.000.-	
	Service Revenue		200.000.-	
		Revenue and Expense Summary Account		11.050.000.-
23				
	Revenue and Expense Summary Account		31.490.000.-	
		Rent Expense		600.000.-
		Miscellaneous Expense		100.000.-
		Advertising Expense		150.000.-
		Salaries Expense		1.060.000.-
		Repair Expense		250.000.-
		Depreciation Expense		630.000.-
		CGS		28.700.000.
24				
	Retained Earnings		20.440.000.-	
		Revenue and Expense Summary Account		20.440.000.-
25				
	Retained Earnings		150.000.-	
		Dividends		150.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

26

Accounts Payable	14.750.000.-
Notes Payable	6.000.000.-
Accrued income Tax	120.000.-
Accrued S.S. Premiums	256.000.-
Accrued Stamp Duty	4.000.-
Capital	35.000.000.-
Accumulated Depreciation	2.630.000.-
Retained Earnings	2.610.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

Cash	2.270.000.-
Cash in Bank	5.300.000.-
Accounts Receivable	14.500.000.-
Notes Receivable	500.000.-
Inventory	14.200.000.-
Prepaid Expense	800.000.-
Land	10.000.000.-
Building	12.000.000.-
Trucks	1.800.000.-

Cash

3.130.000	600.000
1.200.000	100.000
	150.000
	124.000
	150.000
	256.000
	680.000
4.330.000	2.060.000
	2.270.000
4.330.000	4.330.000

Accounts Payable

3.000.000	13.000.000
	4.500.000
3.000.000	17.500.000
	250.000
3.000.000	17.750.000
14.75.000	
17.750.000	17.750.000

Sales

	3.500.000
	6.000.000
	1.200.000
10.700.000	10.700.000

Rent Expense

600.000	600.000

Cash in Bank

2.300.000	3.000.000
6.000.000	
8.300.000	8.300.000
	5.300.000
8.300.000	8.300.000

Notes Payable

6.000.000	6.000.000

Miscellaneous Expense

100.000	100.000

Accounts Receivable

11.650.000	1.000.000
3.500.000	
15.150.000	1.000.000
150.000	
200.000	
15.500.000	1.000.000
	14.500.000
15.500.000	15.500.000

Accrued Income Tax

120.000	120.000
	120.000
120.000	240.000
120.000	
240.000	240.000

Advertising Expense

150.000	150.000

Depreciation Expense

630.000	630.000

Revenue and Expense Summary

31.490.000	11.050.000
	20.440.000
31.490.000	31.490.000

Notes Receivable

2.500.000	3.000.000
1.000.000	
3.500.000	3.000.000
	500.000
3.500.000	3.500.000

Accrued S.S. Premiums

256.000	256.000
	96.000
	160.000
256.000	512.000
256.000	
512.000	512.000

Salaries Expense

900.000	
160.000	
1.060.000	1.060.000

Inventory

35.400.000	
4.500.000	
3.000.000	
42.900.000	28.700.000
	14.200.000
42.900.000	42.900.000

Accrued Stamp Duty

4.000	4.000
	4.000
4.000	8.000
4.000	
8.000	8.000

Prepaid Expense

800.000	800.000

Land

10.000.000	10.000.000

Accumulated Depreciation

	2.000.000
	630.000
2.630.000	2.630.000

Building

12.000.000	12.000.000

Retained Earnings

20.440.000	23.200.000
150.000	
20.590.000	23.200.000
2.610.000	
23.200.000	23.200.000

1.800.000	1.800.00

Dividends

150.000	150.000

Rents Earned

150.000	150.000

Service Revenue

200.000	200.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ 1883

MARMARA ÜNİVERSİTESİ

ABC Co.

Working Paper For Year Ended December 31, 1990

Acc. No.	ACCOUNTS	Total		Balance		Adjustments		Adjusted Trial Balance		(Income Statement) Revenue and Expense Ac.		Retained Earnings Statement		Balance Sheet	
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Expense	Revenue	Debit	Credit	Assets	Liab./O.E
	Cash	4.330.000	2.060.000	2.270.000	–	–	–	2.270.000	–	–	–	–	–	2.270.000	–
	Cash in Bank	8.300.000	3.000.000	5.300.000	–	–	–	5.300.000	–	–	–	–	–	5.300.000	–
	Accounts Receivable	15.150.000	1.000.000	14.150.000	–	150.000 200.000	–	14.500.000	–	–	–	–	–	14.500.000	–
	Notes Receivable	3.500.000	3.000.000	500.000	–	–	–	500.000	–	–	–	–	–	500.000	–
	Inventory	42.900.000	–	42.900.000	–	–	28.700.000	14.200.000	–	–	–	–	–	14.200.000	–
	Prepaid Expense	800.000	–	800.000	–	–	–	800.000	–	–	–	–	–	800.000	–
	Land	10.000.000	–	10.000.000	–	–	–	10.000.000	–	–	–	–	–	10.000.000	–
	Building	12.000.000	–	12.000.000	–	–	–	12.000.000	–	–	–	–	–	12.000.000	–
	Trucks	1.800.000	–	1.800.000	–	–	–	1.800.000	–	–	–	–	–	1.800.000	–
	Accounts Payable	3.000.000	17.500.000	–	14.500.000	–	250.000	–	14.750.000	–	–	–	–	–	14.750.000
	Notes Payable	–	6.000.000	–	6.000.000	–	–	–	6.000.000	–	–	–	–	–	6.000.000
	Accrued Income Tax	120.000	240.000	–	120.000	–	–	–	120.000	–	–	–	–	–	120.000
	Accrued Stamp Duty	4.000	8.000	–	4.000	–	–	–	4.000						4.000
	Capital	–	35.000.000	–	35.000.000	–	–		35.000.000						35.000.000
	Accumulated Depreciation	–	2.000.000	–	2.000.000	–	630.000		2.630.000						2.630.000
	Retained Earnings	–	23.200.000	–	23.200.000	20.440.000 150.000	–		2.610.000			20.440.000 2.610.000	23.200.000		2.610.000
	Dividends	150.000	–	150.000	–	–	150.000					150.000			
	Sales	–	10.700.000	–	10.700.000	10.700.000	–				10.700.000				
	Rent Expense	600.000	–	600.000	–		600.000			600.000					
	Misc. Expense	100.000	–	100.000	–		100.000			100.000					
	Advertising Expense	150.000	–	150.000	–	–	150.000			150.000					
	Salaries Expense	1.060.000	–	1.060.000	–		1.060.000			1.060.000					
	Repair Expense	–	–	–	–	250.000	250.000			250.000					
	Accrued S.S. Premiums	256.000	512.000	–	256.000	–	–	–	256.000	–	–	–	–	–	256.000
	Rents Earned	–	–	–	–	150.000	150.000				150.000				
	Depreciation Expense	–	–	–	–	630.000	630.000			630.000	–				
	COS	–	–	–	–	28.700.000	28.700.000			28.700.000	–				
	Service Revenue	–	–	–	–	200.000	200.000			–	200.000				
	Revenue and Expense Summary Account	–	–	–	–	31.490.000	11.050.000 20.440.000				20.440.000				
	TOTAL	104.220.000	104.220.000	91.780.000	91.780.000	93.060.000	93.060.000	61.370.000	61.370.000	31.490.000	31.490.000	23.200.000	23.200.000	61.370.000	61.370.000

ABC Co.
Balance Sheet
December 31, 1990

Cash	2.270.000.-	Capital Stock	35.000.000.-
Cash in Bank	5.300.000.-	Retained Earnings	2.610.000.-
Accounts Receivable	14.500.000.-	Accumulated Depreciation	2.630.000.-
Notes Receivable	500.000.-	Accrued Income Tax	120.000.-
Inventory	14.200.000.-	Accrued Stamp Duty	4.000.-
Prepaid Expense	800.000.-	Accrued S.S. Premiums	256.000.-
Land	10.000.000.-	Notes Payable	6.000.000.-
Building	12.000.000.-	Accounts Payable	14.750.000.-
Trucks	1.800.000.-		
	61.370.000.-		61.370.000.-

ABC Co.
Income Statement
For the Year Ending December 31, 1990

Sales		10.700.000
CGS		
Beginning inventory	35.400.000	
Purchases	7.500.000	
Goods Available for Sale	42.900.000	
Ending Inventory	14.200.000	
	28.700.000	(28.700.000)
Loss on Sales		18.000.000
Operating Expenses:		
Rent Expense	600.000	
Miscellaneous expense	100.000	
Advertising expense	150.000	
Salaries expense	1.060.000	
Repair expense	250.000	
Depreciation expense	630.000	
	2.790.000	(2.790.000)
Income from operations:		
Rents earned	150.000	
Service revenue	200.000	
	350.000	350.000
Net loss.		20.440.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

ABC Co.
Statement of Retained Earnings
For Year Ended December 31, 1990

Retained earnings, beginning of year	23.200.000
Less: Net loss	20.440.000
	02.760.000
Less: Dividends	150.000
Retained earnings, end of year	2.160.000

29. SOME TAX LAWS RELATED TO TURKISH ACCOUNTING PRACTICES AND ACCOUNTING DOCUMENTS

290. ACCOUNTING DOCUMENTS

Records are to be based on documents

All transactions entered into the journal must be based on a business document. Otherwise, the records would be some imaginary figures which cannot be accepted legally. Therefore, businessmen and accountants who maintain their books on a balance - sheet basis should be familiar with the business documents required.

Types of documents

Documents used by tax - payers who maintain their records on a balance - sheet basis are of a great variety. It is not possible to refer to them all in this chapter. Only those that are important from the standpoint of the tax code shall be dealt with. Such documents are grouped into four categories.

- Documents of a general character:

Correspondence, that is, in-coming and out-going business letters constitute the major documents in this category. A businessman usually writes letters to persons with whom he is dealing and receives replies in return. These are to be kept in two separate files or envelopes in the chronological order. Attention should be paid to make letters and telegram messages in duplicate.

Other then these, agreements (i.e. lease contracts) court decisions, letters of commitment, tax receipts, receipts obtained against tax returns and other similar documents shall be maintained in a separate file.

- Purchasing documents

These are related to purchasing materials. **First of all there are the Invoices:** A businessman should obtain an invoice for each transaction of buying, because, purchases can only be entered into the books on the basis of invoices.

There are instances where it is not possible for the seller to issue an invoice. For example, this is the case when materials are purhased from farmers and producers. In this case a document called **the producer's reciept** shall be used. This document explained below, constitutes an important document in relation to purchasing transactions.

- Documents concerning sales:

These are documents issued in connection with sale of goods or services (i.e. payment for sewing). Purchasing invoices are received from the seller, invoices for sales are to be issued by the supplier himself or his employees.

Invoice is used, in general for wholesale transactions. In retail sales, however, it is obvious that issue of an invoice for each and every transaction is not possible. Therefore, other kinds of documents are to be used for this purpose. Major documents used in retail sales are receipts. In some stores a receipt is given for each retail sale transactions and their daily total give the total daily sales for that particular day. Larger businesses with orderly records employ cash registers. These machines compile cash received and at the same time register them on a tape. These tapes, or rolls as they are called, stand for documents evidencing daily retail sales.

- Documents concerning expenses

Expense records entered into the books of accounts are to be based on documents. The major expense document is **the invoice**. For example, an invoice which shall be obtained, for a transportation service rendered, either from the truck owner or the transportation storehouse is called an expense voucher. In case of travelling by air, the air ticket is an expense voucher. Expense vouchers are of a great variety which cannot be cited here in an all inclusive list. In the same manner, **the self-employed professional's receipt** issued by a lawyer for the fee he had received for handling legal proceedings involving a commercial dispute, is another example of expense vouchers, for the businessman paying the lawyer's fee.

Some of the expense vouchers are issued by the businessman making the payment. These are called charge notes which certify that a given amount of money is paid. For instance, when a payment is made to a porter or a driver, they would not be able to issue a receipt in return. In this case, they will sign a slip of paper which will be accepted as an expense voucher certifying that the payment in question was actually made.

Payroll for salaries and wages constitute another type of expense vouchers

- Cases where no documents are required:

Miscellaneous payments, for which customarily no slips of paper are given, are accepted without an evidencing document. In the following instances,

customarily no documents are required: payment for stamp duty, taxi fares, train fares and the like. For the above and similar payments no evidencing documents are required, for in such cases a document is not available.

Amounts related to expenditures and purchases without being supported by a document should be compatible within the nature and the size of the business. Otherwise, they shall be rejected.

The Invoice

An invoice is a commercial document issued by the merchant selling goods or rendering services, showing the amount the customer is indebted against the goods sold or services rendered.

Form of the invoice:

Pursuant to revised article 230 of the Tax Procedures Code, by article 34 of Statute number 2365, an invoice shall contain, at least, the following information:

- Date, serial and order number;

- Name and trade name, business address, tax office and tax office account number of the person issuing the invoice;

- Name, trade name, address and tax office and tax office account number of the customer;

- Type, amount, price and total of the goods sold or services rendered;

- Date of delivery of goods and the number of the bill of parcels (in case goods are transported by the seller to be delivered to the buyer, a bill of parcels shall be issued by the seller to accompany the goods and in case goods received shall be transported by the buyer, a bill of parcels shall be prepared by the latter).

In the event that the goods are transported among various workplaces or branches of the same tax payer or delivered to one of their agents, a bill of parcels shall be issued by the party performing the delivery. Bill of parcels shall indicate where and to whom the goods are sent.

When the final consumers transport or have transported goods they buy from retailers for their own consumption, no bill of parcels shall be required provided that invoices are available for the said transactions.

Rules pertaining to invoices:

In accordance with revised article 231 of the Tax Procedures Code by article 35 of Statute number 2365, the following rules shall be observed in the issuance of invoices.

- Invoices shall be given a serial number in sequence. In the event that separate invoices (starting with the same number) are issued at different sections and branches of the same establishment, different serial numbers or special marks shall be used indicating the name of the section or the branch involved.

- Invoices shall be printed with ink, with typewriter or with copying lead pencil.

- Invoices shall be prepared, as a minimum, in duplicate, one original and one copy. When more than one copy is made, each copy shall be numbered in sequence.

- Invoices shall carry the signature of the owner of the business or those who have the authority to sign for him, at the upper part.

- Invoices shall be issued in ten days following the date on which the goods are delivered or the services rendered. Invoices not issued during this period are not acceptable.

- (Supplement by article 20 of Statute number 3239). Those who are responsible for issuing invoices pursuant to paragraph 1, article 232 of the said statute, shall be held liable for the accurateness of the name and surname, tax office and the account number of the customer. Customers shall present the certificate showing his identification and the tax office account number upon demand by the person issuing the invoice.

Obligation to use invoices:

Pursuant to article 232 of the Tax Procedures Code, First class and Second class merchants and farmers with obligations to maintain books for goods sold or services rendered, shall issue invoices to and receive invoices from:

- First class and second class merchants;
- Self - employed professionals,
- Merchants whose earnings are determined on a lump-sum basis.
- Farmers with obligation to maintain books,
- Tax - exempt tradesmen and artisans.

When parties other than those mentioned above, purchase goods from or have services rendered by first class and second class merchants or farmers under obligation to maintain books, the cost of which exceed onehundredthousand liras, or when requested by the above (even when less then onehundredthousand liras), suppliers of goods and services are obliged to issue an invoice.

Producer's Receipt

First class and second class merchants and farmers under obligation to maintain books shall issue a receipt in duplicate as and when they affect payment for the cost of goods they purchase from farmers who are taxed on a lump-sum basis or are otherwise exempt from paying taxes, one of which shall be signed and given to the producer and the other shall be signed by the producer and retained by the buyer.

The copy of the said receipt retained by the buyer shall be used as an invoice.

The producer's receipt referred to above shall at least have the following information.

- Date of the receipt;
- Name, surname, title and address of the buyer;
- Name, surname and resident address of the supplier;
- Type, amount and price of the goods purchased;
- Producer's receipts shall be given a number in sequence.

Charge Note

A Charge Note is a document issued by First class and second class merchants, farmers and self-employed professionals under the obligation to maintain books, for services received from and goods supplied by merchants and self-employed professionals who are taxed on a lump-sum basis and tradesmen exempted from paying taxes, which will be signed by the supplier. This same document will also be issued for the valuable items such as gold and jewelry purchased by first class and second class merchants from suppliers of personal goods.

The charge note is used as an invoice issued by merchants and self-employed professionals who are taxed on a lump-sum basis and tradesmen exempted from paying taxes. Charge notes are given serial and order numbers in sequence.

The charge note gives information about the type of work and the fee paid, kind, type, amount and price of goods, name, surname and address of the buyer and supplier and the performer and the receiver of the service and the date. It is issued in duplicate, one copy of which is retained by the buyer and the other by the supplier.

Documents Pertaining to Retail Sales

The following documents shall be used in case of sales and services performed by first class and second class merchants and farmers under the obligation of maintaining books, for which they do not have to issue an invoice.

- Retail sales receipts
- Rolls of cash registers
- Tickets for entry and passenger transportation.

Retail sales receipts and paper rolls of cash registers shall indicate the name of the business or the taxpayer, date and the amount of money received.

Retail sales receipts and the entry and the passenger transportation tickets shall have serial numbers in sequence. The said receipts and tickets shall be issued in duplicate, one copy of which will be given to the customer. It is obligatory to issue a retail sales receipts to be given to the customer where cash registers are employed, and cash register receipts (those produced by the machine containing the data explained in the previous paragraph) are not given to customers.

Collection receipt

Business firms and companies issue a document called a collection receipt against payments received, to be given to the party making the payment. This constitutes an evidence for the paying party. Such receipts, in general, are prepared in duplicate, one original and one copy. The original is retained by the paying party and the copy by the receiver.

In the event that the payment is made by cheque, this should be indicated in the receipt. The issuing bank, the date and the number of the cheque will also be given. Failure in doing this may result in some legal complications.

In order to safeguard collections, receipts shall be numbered in sequence and turned over to the cashier against his signature.

Requirement Of Notary Certification Or Use Of Documents Printed As prescribed By The Ministry

New rules were adopted by the Ministry of Finance, in the year 1985, concerning the invoices, producers' receipts and receipts issued by self - employed professionals' used by the tax payers, based on the authority given by article 257 of Tax Procedures Code number 213. According to these new arrangements the said documents are to be certified by Public Notaries beginning January 1, 1985. However, taxpayers shall be free to use documents printed in the form and at printing shops designated by the Ministry, in which case notary certification shall not be required.

In compliance with articles 230, 231, 235 and 237 of the Tax Procedures Code, invoices, producers' receipts and receipts issued by self-employed professionals, as a minimum, shall have a serial and order number, name, surname and title, address, tax office and the tax office account number of the person issuing the document. Such documents will have serial numbers in sequence and there shall be no intervals between numbers and no blank pages in between documents. In the event that separate invoices (starting with same number) are issued at different sections and branches of the same establishment, different serial numbers or special marks shall be given indicating the name of the section or the branch involved.

Taxpayers using electronic data processing equipment for such documents will have these certified before using.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Documents other than invoices, producers' receipts, self-employed professionals' receipts to be certified by the public notaries, as a minimum, will contain the following information.

Charge notes: name, surname, trade name and address of the businessman buying the goods or receiving the service, the serial and consectucive number of the bill;

Retail sales receipt: name and surname of the businessman or company or the taxpayer, trade name, if any, tax office and the tax office account number, the serial and order number in sequence (if the taxpayer so desires) type, amount, price and total of goods or services.

Entry and passenger transportation tickets: name and surname trade name (if any), tax office, tax office account number of the company, serial and order number in sequence;

Bill of parcels; name and surname, trade name, if any, tax office, tax office account number of the person issuing the document and the serial and order number of the bill in sequence;

Daily customer list; name and surname and trade name, if any, and address of the taxpayer and the serial and order number of the list in sequence;

Passenger list; name and surname, trade name, address of the business firm or company issuing the list, serial and order number of the list in sequence.

One original copy of the following documents shall be certified by public notaries: invoice, producer's receipt, receipt issued by the self-employed professional, charge note, retail sales receipt, paper rolls of cash registers, passenger transportation tickets and bill of parcels. When more than one copy is made, they should be numbered.

No specific time is set for certification of the documents, in principle, documents are to be certified before being used. Therefore, it is not compulsory that all documents to be used during an entire accounting term be certified in one lot. Taxpayers may have their documents certified at different times taking into consideration their volume of work. On the other hand, certified documents left over at the end of the accounting term are allowed to be used in the following term.

"Regulation concerning the Printing and Distribution of Documents Used by Taxpayers" prepared in accordance with paragraph 2 of article 257 of the Tax Procedures Code number 213 was published in the Official Gazette number 18654

dated 2 February 1985 and put into effect on the date of publication. This regulation defines the rules, terms and conditions pertaining to the printing and distribution of the following documents by the third parties and penalties to be applied in case of non-compliance: invoices, producer's recepits, receipts issued by self-employed professionals,retail sales vouchers (retail sales receipts, paper rolls of cash registers, entry and passenger transportation tickets), bill of parcels, passenger lists and daily customer lists.

Information to be contained in documents which will be printed by printing houses in compliance with the regulation referred to above, is almost the same as those to be contained in documents requiring notary certification, prescribed earlier. Therefore, they are not repeated here.

In compliance with the said regulation, invoices, producers' receipts, charge notes, retail sales receipts, shall be issued in duplicate, as a minimum, one original and one copy, bill of parcels and passenger lists one original and two copies and daily customer lists in one original, as a minimum.

In addition, printing houses undertaking the printing of these said documents, in compliance with the terms and conditions of the regulation referred to above, will have their names, surnames, trade name, if any, addresses, tax offices and tax office account numbers written, at the bottom, in the form of a footnote. Also, in a suitable place on the form, the traffic code number of the city, where located and the special logo indicated by the tax office will be put. Again, according to the provisions of this said regulation, documents to be printed and distributed by printing shops shall be produced in the following sizes:

- Invoices, 28 x 20 cm. or 14 x 20 cm.
- Producers' receipts, 14 x 20 cm.
- Self - employed professionals receipts 14 x 20 cm. or 14 x 10 cm.
- Charge Notes, 14 x 20 cm.
- a) Retail sales receipts, 14 x 20 cm. or 14 x 10 cm.

  b) Entry and passenger transportation tickets, 8 x 17 cm.

  c) No standart size is prescribed for cash register machines, rolls suitable to the specifications of the machine will be used.

- Bill of parcels 28 x 20 cm or 14 x 20 cm.
- Daily customer lists 28 x 20 cm.
- Passenger lists 28 x 20 cm.

According to the specific requirements of the business, such documents may be used in the vertical or the perpendicular form.

Memorandum

Memorandum is a letter or acknowledgement of account. It is usually employed by banks. As and when there is a change in account of a customer, this is acknowledged with a note which is called a memorandum.

There are two kinds of memorandums, one is a debit memorandum and the other is a credit memorandum.

- **Debit Memorandum (Debit memo)**

In case change in the customer account involves a debit entry the note issued is called a debit memo. As an example, let us suppose the bank charged a commission of 100.874 liras for collecting promissory notes.

In that case, a debit memo shall be issued for the above amount indicating that an entry is made in the debit side of the customer's bank account.

This will be entered into the journal of the customer in the following way.

Commissions expense		100.874.-	
	Cash in Bank		100.874.-

Credit Memorandum (Credit Memo)

In case the change in the bank account involves a credit entry the memorandum issued is called a credit memorandum. As an example, let us suppose, the bank collected 250.000 liras against promissory notes endorsed to them for collection. This time a credit memo shall be issued by the bank acknowledging this collection. This transaction will be recorded in the books of the customer in the following manner:

Cash in Bank		250.000.-	
	Notes Receivable in Collection		250.000.

- **Accounting Slips**

In large business organizations, journal entries are not made directly from business documents, but they are first recorded in what we call slips. More correctly, the accounting cycle starts with preparing a record of a transaction in the form of slip

which is later entered into the journal.

Transaction slips are of three kinds, namely, those for money collected, for payments made and for noncash transactions. In order to avoid any confusion, these three kinds of slip are prepared in different colours. Also, a number of copies may be issued to use the same slip for making a journal entry as well as recording the same transaction in subsidiary books.

- Slip for cash received:

This shows the amount of cash received, for what purpose and to which account the transaction will be credited.

- Slip for payments made:

This shows the amount of money paid from the cash account, for what purpose payment is made and to which account the transaction will be debited.

- Slip for noncash transactions:

This is used in recording noncash transactions. The slip indicates to which account the transaction will be debited and to which account it will be credited.

- Payrolls

Payrolls are the major documents in relation to wages and salaries. Employers are under the obligation of showing wages and salaries paid to their employees such as clerks, accountants, sales clerks, labourers, in the payrolls.

Payrolls are required, by law, to indicate the following information, as a minimum:

- Name and surname of the employee and his/her signature showing that the payment is received,
- Unit wage (Monthly, weekly, daily, hourly),
- Total units worked, i.e. 30 days. 4 weeks, 1 month.
- Date, number and issuing tax office of the tax carnet, if any,
- Amount of tax calculated on the basis of wages.

In addition, on the top of the payroll, the month for which payment is made, address of the workplace, tax office where the withholding return is submitted and the tax office account number and other relevant information will be given.

Payrolls are dated and signed by the payroll officer and the manager of the establishment.

Businessmen are authorized, by law, to design their payrolls, in the form that suits their needs. However, it is a must that payrolls should include the above

mentioned information, as a minimum.

Printed payrolls available in the market are more detailed and divided into three parts.

MARMARA ÜNİVERSİTESİ YAYINEVİ

- **Accruals:**

This part contains columns for wages earned by the employee for his/her work performed, and supplementary earnings such as overtime premiums and their totals.

Deductions:

As indicated by its title, this section shows deductions to be made from wages in separate columns. These include, deductions for income tax, stamp duty, and social security premiums. Other than the above, deductions against debts of employees owed to the company and deductions imposed by law enforcing departments and etc. are shown in this section.

- **Payment:**

There are columns in this section, showing the net amount of payment made after various deductions from the wages and salaries earned and the signature to be placed showing that the take - home - pay is received by the employee concerned.

Following you will find an example of how a payroll is prepared. (21)

- **Preparing the wage accrual section of the payroll**

Mention was made above that wage accrual section shows the money earned in the course of the month for which payment is made, by waged and salaried employees. Payment of wages constitute the principle right of the employees against work performed. This may be in the form of monthly, weekly or daily wages. Our sample is related to a daily - paid worker. In this case, the daily rate of pay shall be multiplied by the number of days worked to arrive at the monthly pay.

Let us suppose the daily pay is 10.875 TL and number of days worked within the month is 30. The monthly pay will be:

10.875 x 30 = 326.250 TL:

In case the worker worked overtime, hourly pay for the overtime is paid with an increase of 50 %. Suppose the above worker worked 30 hours in addition to the normal hours of work, his hourly pay will be calculated by dividing his daily rate of pay by 7,5 (10.875: 7.5 = 1.450 TL.)

---

(21) Erkural Kenan, Muhasebe, Prensipler Uygulama, İstanbul, 1988.

As shown above, the hourly pay is 1450 liras. Hourly rate for overtime pay will be calculated by adding 50 % of the hourly rate, in this sample, 725 liras which is 50 % of 1450 liras and this would be: 1.450 + 725 = 2.175 liras. Since, the worker in our example worked 30 hours overtime, his overtime pay will be 30 x 2.175 = 65.250 liras.

If the worker in our sample, worked 6 days a week, he/ she will be entitled to payment for Sundays not - worked. However, in case he actually worked on Sundays, this would constitute overtime work and he would be entitled to increased pay by 50 % for every Sunday worked.

The worker in the above example, did not work on Sundays and worked 6 days a week instead, thus being entitled to pay for Sundays not-worked.

Now, let us suppose our worker reported to work 2 Sundays in the course of the same month. This means he had 15 hours overtime for these 2 Sundays (7,5x2). We had calculated above that this worker's overtime pay per hour is 2.175 liras. Thus, the overtime payment for Sundays- worked will be 15 x 2.175 = 32.625 liras. His overtime pay for 30 hours - worked during the week - days (65.250 liras) and his overtime pay for 2 Sundays - worked (32.625 liras) will add up to 97.875 liras against 45 hours (30 + 15) overtime. This will add up to 424.125 liras together with his / her normal pay (97.875 + 326.250), giving the total for normal plus overtime pay.

Workers are entitled to normal daily pay for official holidays - not worked. However, in case they report to work, they shall be entitled to an extra day's pay. Suppose, there were 3 official holidays during the month and the worker in our sample reported to work, in which case he will earn an additional payment of 32.625 liras (10.875 x 3). Thus, his total gross pay will be 456.750 liras (424.125 + 32.625).

- Preparing the deductions section of the payroll

Following, you will find an explanation on how the deductions section of the payroll is calculated, step by step.

a) Deductions for social security premiums:

The following deductions are made from wages of employees pursuant to the social security legislation: 9 % for old age and disability pensions, 5 % for health insurance adding up to 14 % altogether. However, there is a monthy ceiling concerning wages on which social security premiums are based. At present, this ceiling is 2.048.010 liras, that is, those, earning higher wages shall pay premiums calculated on the basis of 2.048.010 liras.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Since in our example, the wage of the worker is 456.750 liras the deduction to be made for social security premiums shall be calculated as follows: 456.750 x 0,14 = 63.945 liras. (The monthly ceiling concerning wages on which social security premiums are based change twice a year. The monthly ceiling on July 1990 has been taken into account)

b) Income tax deduction:

In order to calculate the amount of tax to be deducted from the payroll, first thing to do is to deduct that portion of the earnings exempted from tax thus arriving at the amount of taxable wages. Therefore, the amount of social security premiums are deducted from the gross total of wages.

In our above example, this will read as follows: total gross pay 456.750 liras minus 63.945 liras for social security premiums = 392.805 liras.

According to article 31 of the Income Tax Code, a special deduction shall be applied to the wages in the amount of 1200 liras on a daily, 36.000 liras monthly and 432.000 liras yearly basis, beginning 1, January 1990.

In our above example, 36.000 liras shall be deducted from his monthly pay.

We had arrived at 392.805 liras after making a deduction from his gross wages at a rate of 14 % for social security premiums. Now, by applying the special deduction to this amount we will arrive at the taxable wage earnings, which will read as follows:

392.805 – 36.000 = 356.805 liras.

The taxable amount of wage is 356.805 liras from which income tax deduction shall be made at a rate of 25 %. 356.805 x 0,25 = 89.201,25 liras.This gives us the amount of income tax to be deducted. However, pursuant to article 104 (revision by article 71 of statute number 2361) the lira fractions of the amount of tax to be paid and the taxable income shall not be taken into account. Therefore, the final amount to be deducted from the payroll for income tax will read 89.201 liras.

Income tax rates for 1990 and the subsequent years will be as follows.

Amount of taxable income and rates of tax:

up to 8.000.000 liras		25 %
2.000.000 liras for	8.000.000 out of	16.000.000, the rest 30 %
4.400.000 liras for	16.000.000 out of	32.000.000, the rest 35 %
10.000.000 liras for	32.000.000 out of	64.000.000, the rest 40 %
22.800.000 liras for	64.000.000 out of	128.000.000, the rest 45 %
51.600.000 liras for	128.000.000 out of	128.000.000, the rest 50 %

MARMARA ÜNİVERSİTESİ YAYINEVİ

c) Deduction for stamp duty:

Deduction for the stamp duty is applied at the total monthly wage, before any deductions, at a rate of 0.004.

In our example, gross wages to be paid amounted to 456.750 liras, the stamp duty to be paid would be 1.827 liras (456.750 x 0.004).

Now, let us add up total deduction:

Social Security premiums	63.945.-
Income tax deduction	89.201.-
Stamp duty deduction	1.827.-
	154.973.-

- Preparing the payment section of the payroll

As mentioned above, the balance, remaining after deductions calculated on the relevant section shall be deducted from the gross total of wages earned, will constitute the "take - home -pay" of the employee. In our example, gross total of wages is 456.750 liras, when total deductions amounting to 154.973 liras is subtracted from this amount we will arrive at the "take - home - pay" which is 301.777 liras (456.750 – 154.973). This amount will be indicated at the column of the payroll, titled 'take - home - pay'

The payroll information for the employees is entered in a record called payroll summary. A **payroll summary** includes the name of the employees, total wages and salaries, income tax deductions, stamp duty deductions, social security premiums deductions, net wages and salaries as shown below:

"X" Co.
Payroll Summary
for the Month Ended December 31, 1990

Name	Gross Salary	Deductions				Take-home pay
		Social Security Premiums	Income Tax	Stamp Duty	Total	
Ahmet Ak	456.750	63.945	89.201	1.827	154.973	301.777

Information from this record is used to prepare a payroll entry in the journal. According to our example the journal entry will be in the following way

Dec. 31,1990

Salaries expense		456.750.-	
	Social Security Premiums Payable		63.945.-
	Income Tax Payable		89.201.-
	Stamp Duty Payable		1.827.-
	Salaries Payable		301.777.-

When the payment is made on January 1, 1991, the transaction will be journalized as follows:

January 1,1991

Salaries Payable		301.777.-	
	Cash		301.777.-

- Social Security Premiums levied on the employer

According to our social security legislation, employers have to participate in the social security premiums of the employee.

Employers are under obligation of paying social security premiums in the following amounts over wages to be paid.

- Premium for accidents and occupational disease: the rate of premium varies between 1,5 % - 7 % depending on the probability of hazards of the work.

In the event that there is a high probability of accidents and occupational disease the rate of premium shall be higher and vice versa. In the trading firms the probability is lower, therefore the rate for this premium is 1,5 %.

The rate of premium to be paid for accidents and occupational disease shall be determined by the Social Security Institution (SSK) pursuant to the premium tariff.

- Motherhood insurance premium is 1 %.

- Health insurance premium is 6 %.

- Old age, disability and death insurance premiums are 11 %.

Social Security premiums paid by the employer constitute an item of expense to be entered into the Salaries expense account of the month for which they are paid. Social security premiums entered into the books are to be paid to the Social Security Institution, latest at the end of the following month. Until premiums are actually

paid, the Social Security Institution will be in the position of the creditor, therefore this amount shall be entered into the credit side of Social Security Premiums Payable account. Let us suppose that in our example the employer is levied on 91.350.- premiums. The following entry will be made (% 20 of total wage)

December 31,1990

Salaries Expense		91.350.-	
	Social Security premiums payable		91.350.-

- **PAYMENT OF THE TAX AND SOCIAL SECURITY PREMIUMS DEDUCTED FROM THE PAYROLL TO THE RELEVANT AGENCIES**

- **Payment of tax deductions:**

The following taxes deducted from the payroll in our sample is to be paid latest on the 20th day (during the office hours) of the following month:

Income tax	89.201
Stamp duty	1.827
TOTAL	91.028

The following entry is made at the time of payment

January 20,1991

Income tax payable		89.201.-	
Stamp duty payable		1.827.-	
	Cash		91.028.-

Payment is made to the tax office accompanied by a statement of tax called "withholding return".

The above declaration will cover the following information:

- Name, surname, trade name and address of the businessman or the merchant undertaking the deduction.
- The month or months to which the declaration is related.
- Summary of monthly payroll:
  a) Number of employees.
  b) Total wages paid to the employees.
  c) Total tax deducted from the payroll
- Other payments subject to tax stoppage (withholdings)
  a) Name, surname, business address, tax office and the tax office account number of the party receiving the payment.

MARMARA ÜNİVERSİTESİ YAYINEVİ

b) Kind of payment
c) Amount of payment
d) Amount of tax withheld from the payment
- Date of the declaration and the signature of the authorized person.

Accordingly, "withholding return" covers other taxable payments incurred and the amount of taxes withheld therefrom, in addition to the income tax and stamp duty deductions from the payroll. As explained earlier, when occupying a rented workplace, a 20 % tax stoppage shall be applied to the amount of rent to be paid pursuant to article 94/6 of the Income Tax Code and Resolution number 85/10175 of the Council of Ministers, which is to be stated in the withholding return together with other taxes due. In addition, in accordance with article 12/h of Statute number 3238 concerning the development of the defence industry and the modernization of the Turkish Armed Forces, taxpayers of income and corporation tax (excluding revenues obtained in the form of salaries by those liable to pay income tax) are put under the obligation of making a contribution to the said Defense Industry Support Fund, at a rate of 5 % over the amounts accruing as income tax as well as corporation tax. Therefore, in addition to the tax withholding of 20 % from the rent paid, another deduction at a rate of 5 % (over the tax paid) is to be made for the above Defence Industry Support Fund. This is also to be submitted to the tax office in the same withholding return.

In our sample below, the monthly rent for December is 20.000.000 TL. The 20 % tax withholding on rent and 6 % support fund contribution deducted from the tax accruing will be shown in the journal as follows:

December 31,1990

Rent expense		20.000.000.-	
	Income tax payable		4.000.000.-
	Defence Industry support Fund payable		200.000.-
	Cash		15.800.000.-

Employers with less than 20 employees are entitled to submit their withholding returns on February, May, August and November (latest on the 20th day of each month during the office hours) on the condition that they obtain the permission of the relevant tax office in advance.

At the time of payment to the tax office the following journal entry is made

MARMARA ÜNİVERSİTESİ YAYINEVİ

January 20,1991

Income tax payable	4.000.000.-	
Defense Industry support fund payable	200.000.-	
Cash		4.200.000.-

- Payment Of Social Security Premiums Deducted From The Payroll:

As explained earlier, there are two different kinds of social security premiums. One is deducted from the payroll, the other paid by the employer based on the same payroll. Both payments are submitted to the Social Security Institution accompanied by a statement called the Social Security Premiums declaration and payment is to be made latest till the end of the following month.

Now, let us turn to our sample according to which social security premiums deducted from the payroll reads 63.945 liras and the employer's share 91.350 liras. Both amounts are to be deposited to the relevant Social Security Office accompanied by the monthly declaration for Social Security premiums.

Social Security premiums that is paid will be journalized in the following manner.

January 30,1991

Social Security premiums payable	155.295.-	
Cash		155.295.-

There are social security premiums payroll other than monthly declarations which are submitted to the Social Security Institution on May, September and January. Every payroll shows, on a monthly basis the number of days employees worked, employees subject to social security premiums in which the payroll is made and as well as the wages or salaries they are paid.

291. ACCOUNTING FOR TAX REBATES

- GENERAL EXPLANATION ABOUT THE STATUTE CONCERNING TAX REBATES

Pursuant to article 1 of "Statute Concerning Tax Rebates to Wage Earners", number 2978, dated 2 February 1984, effective as of 1 January 1984, amended by article 83 of Statute 3239, wage earners under full taxable liability, taxpayers subject to income tax for their commercial, agricultural activities, pensioners, including

MARMARA ÜNİVERSİTESİ YAYINEVİ

widows and orphans entitled to payment and their spouses, children and those they are legally bound to support shall be entitled to tax rebates as and when they purchase goods and services prescibed by the said Statute, from public establishments from persons and legal entities who are under the obligation of paying taxes on a real basis, on the condition that they obtain documents prescribed by the same Statute, evidencing the act of sale.

The above mentioned wage earners shall submit the documents pertaining to the goods and services they purchased in the course of the month, accompanied by a notice of the said purchases, within the first seven days of the following month to those real or corporate bodies responsible for preparing their payroll.

The employer receiving the documents, shall calculate the amount of tax rebate due to each employee on the basis of the said documents as well as taking into account the limits and rates prescribed by the said Statute. The employer shall submit a "Tax rebate statement" showing the total amount of tax rebates due to all wage earners, to the tax office to which they submit their monthly withholding return, latest in the evening of the twentieth day of the following month. Effective as of 1 April 1985, the tax office involved shall pay to the employer the total amount of tax rebates according to the "Tax Rebate Statement" turned in, for a given term, until the end of the month during which the above mentioned statement was submitted. The employer, in return shall pay to the employees the amount of tax rebate due, latest within ten days following the date on which payment is received from the tax office.

Later, an amendment was made in the procedures to the effect that, instead of the employer collecting the tax rebates to be reimbursed from the tax office, these would be offset against the amount of income tax deducted from the payroll and submitted to the same tax office with the "monthly withholding return" and paid.

The ten - day time limit set for undertaking the payment of tax rebates due to the employees concerned, shall commence on the day the offset transaction is concluded.

- ACCOUNTING RECORDS CONCERNING THE TAX REBATES TO WAGE EARNERS

It is understood from the foregoing explanation concerning the legal provisions that calculation of the tax rebates, declaring to the tax office for reimbursement and paying the employees what is due are the obligations of the employer. In a business concern where the employees are entitled to receive tax rebates, the records to be maintained are explained in the simple example given below.

Example: "X" company submitted a "Tax rebate statement" to the relevant tax office amounting to 78.000 liras, for the month of June, 1990, based on the declarations made by the employees. On the other hand, the total income tax deducted from the payroll for the same month which is to be paid to the tax office totals 215.000 liras. In addition, a deduction shall be made from the tax rebates, at a rate of 0,5 % (which reads 390 liras in our example) for stamp duty.

Journal Entries:

	1990			
1	20. 7			
	Tax Rebates Receivable		78.000.-	
		Tax Rebates payable		78.000.
	Accrual of tax rebates for the month of June			
2				
	Income Tax Payable		77.610.-	
	Tax Rebates Payable		390.-	
		Tax Rebates Receivable		78.000.-
	Offset of tax rebates against income tax to be paid for the month of June			
3				
	Income Tax Payable		137.300.-	
	Tax Rebates Payable		77.610.-	
		Cash		215.000.-
	Payment of the income tax to the tax office and payment of tax rebates to employees			

Ledger records:

Tax Rebates Receivable

1)	78.000	2)	78.000

Tax Rebates Payable

2)	390	1)	78.000
3)	77.610		
	78.000		78.000

Income Tax Payable

2)	78.000		215.000
3)	137.390		
	215.000		215.000

Cash

	X	3)	215.000

- Information about the statue for the encouragement of the wage earners to save

MARMARA ÜNİVERSİTESİ YAYINEVİ

This subject is prescribed by the Statute number 3417, dated 9 March 1988.

The purpose of this Statute is to encourage the wage earners to make savings by means of deducting a certain amount from their wages and salaries, by securing the contribution of the State and the employers concerned, by making it compulsory for the self-employed to allocate a given amount of their earnings to the saving fund and by providing for the profitable exploitation of this fund thus accumulated (article 1).

In accordance with the provisions of this Statute, it is compulsory to make a deduction from wages and salaries of employees employed where there are ten or more people on the payroll. It is also compulsory for the employers to make a contribution to the said fund at a given rate.

The total amount of savings will comprise the deductions applied for this purpose to the wages and salaries of the employee at a rate of 4 % and the employer's contribution at a rate of 6 % of the total wages and salaries for that given month.

Saving Fund deductions shall be calculated and deposited by the employers to a special "Saving Encouragement Account" established at the Ziraat Bank, in the name of employees, by the end of the month following the one to which they ralete (article 4).

Pursuant to the provisions of the Statute number 2822, in connection with its application, an increase of 4 % shall be made in the wages of employees employed where there are ten or more people on the payroll until such time a collective bargaining shall be enacted. This increased amount together with the employer's contribution of 6 % shall be deposited to the "Saving Encouragement Account" established pursuant to article 4 of the said Statute, in the name of the employees at the Ziraat Bank within the time limit prescribed by the said article (provisional article 1/b).

Following, a simple example is given:

EXAMPLE: There are 11 workers employed in our workplace in the month of August, 1990 and the wages and deductions made therefrom, on the payroll are as follows:

Total wages	:	2.475.000.-
Social Security Premiums	:	346.500.-
Income Tax	:	499.125.-
Stamp Duty	:	9.900.-
Saving Fund (employees' share	:	85.140.-
Saving Fund (employer's share)	:	148.500.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

15 ——— 31.8.1990 ———

Salaries expense		2.475.000.-	
	Cash		1.534.335.-
	Income tax payable		499.125.-
	Stamp duty payable		9.900.-
	Social security premiums payable		346.500.-
	Saving fund payable		85.140.-

Payroll for the month of August

16 ——— 31.8.1990 ———

Salaries expense		148.500.-	
	Saving fund Payable		148.500.-

Employer's share for saving fund for the month of August

Salaries Expense

15) 2.475.000	
16) 148.500	

Cash

X	15) 1.534.335

Saving Fund Payable

	15) 85.140
	16) 148.500

Income Tax Payable

	15) 499.125

Stamp Duty Payable

	15) 9.900

Social Security Premiums Payable

	15) 346.500

When the saving fund accrued shall be deposited with Ziraat Bank, at the end of the month of September, the following entry shall be made in the books

20 ——— 30.9.1990 ———

Saving Fund Payable 233.640.-

Cash 233.640.-

Payment of saving fund for the month of August

MARMARA ÜNİVERSİTESİ YAYINEVİ

Saving Fund Payable				Cash			
20)	233.640	15)	85.140	X		15)	1.534.335
		16)	148.500			20)	233.640
			233.640				

293. ACCOUNTING FOR SOCIAL SECURITY WITHHOLDINGS FOR THOSE SUBJECT TO THE SOCIAL SECURITY SUPPORT PREMIUMS.

- INFORMATION CONCERNING THE SOCIAL SECURITY SUPPORT PREMIUM

Social security premiums deduction concerning those employees who pay social security support premium is a special case. This practice concerns those employees who are already drawing old age pensions from the Social Security Institution (SSK).

A 24 % insurance premium is paid for such people, (18 % employer's and 6 % employee's share). The only difference to be made in preparing the payroll of such employees is to apply 6 %, instead of 14 % as the employee's share of social security premiums.

A "Monthly Social Security Support Premium Declaration" is submitted to the SSK up to the end of the following month by the employers and the premiums accrued are paid.

As explained above, the only difference from the standpoint of accounts, concerning social security support premium is that a different percentage is applied to this group. The other transactions are exactly the same as the normal social security premiums, therefore in the following example only journal entries are given.

EXAMPLE: Suppose we have only one employee in this group and he is paid 355.000 Liras in January 1990. Since 355.000 Liras is below the Social Security Premiums basis ceiling, Social Security premium labor share will be 355.000 x 0.06 = 21.300 Liras. His taxable income wil be 297.700 liras after 36.000 liras special exemption and social security premium employee's share (21.300 TL) are subtracted from his total wage. A 25 % income tax will be deducted

from this total which will read 74.425 liras= 297.700 x 0.25

Stamp duty at a rate of 0,04 %, 1.420 liras = 355.000 x 0,004 shall be withheld.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Total deductions will be 97.145 liras = 21.300 + 74.425 + 1.420. The take-home-pay of the employee will be 355.000 – 97.145 = 257.855 liras.

The related journal entries will be as follows:

20	——— 31.1.1990 ———			
	Salaries expense		355.000.-	
		Cash		257.855.-
		Income tax payable		74.425.-
		Stamp duty payable		1.420.-
		Social security premiums payable		21.300.-
	Payroll for the month of January			
21	——— 31.1.1990 ———			
	Salaries expense		63.900.-	
		Social Security Premiums payable		63.900.-
	Employer's share in the social security support premium (355.000 x 0.18)			

294. ACCOUNTING FOR VLAUE ADDED TAX (VAT)

GENERAL INFORMATION ABOUT VALUE ADDED TAX (VAT) CODE

The Value Added Tax Code (VAT) number 3065, published in the Official Gazette, No. 18563, dated November, 1984 and effective as of 1 January 1985, is in fact a consumer tax covering the production and distribution of almost all goods and services available in the economy.

Some information is given concerning the Code before introducing the accounting application of the VAT.

- Transactions subject to VAT:

In accordance with article 1 of VAT Code No. 3065, the following transactions taking place in Turkey are subject to VAT:

- Deliveries and services performed under commercial, industrial, agricultural activities and the activities by the self-employed.
- Importation of all kinds of goods and services.
- Deliveries and services arising out of other activities, (these are specified by the Code, one by one).

The continuity, scope and nature of the commercial, industrial, agricultural activities and the activities of the self-employed mentioned in the first group above are defined and stated with reference to the Income Tax Code and, in case it is not clear, with reference to the Turkish Commercial Code and other relevant legislative provisions.

- **Delivery:**

The Value Added Tax is based firstly on "deliveries" and secondly on "services".

"Delivery" means transfer of possesion rights over a property, to the buyer or to those acting in the name of the buyer by the owner or those acting in his name. The consigning of goods to the buyer or to such places or persons designated by the parties acting in the buyer's name means "delivery". In the event that the goods are consigned to the buyer or to those acting on behalf of the buyer, the commencement of the act of transportation of the goods or consigning the goods to the transporter or driver also constitutes an act of delivery. (VAT Code article 2).

Accordingly, the taxable act takes place as and when the goods, together with the invoice and similar documents (retail sales receipt, charge note producer's receipt, receipt issued by the self-employed professionals) are consigned to the buyer or to those acting on behalf of the buyer.

In the event that the invoice and similar other documents are issued before the actual delivery takes place, goods covered by the said documents shall be accepted as "delivered" and VAT shall be assessed (VAT Code article 10/b) on the invoice total amounts.

In case goods are consigned to the buyer or to those acting on behalf of the buyer, commencement of the act of transportation of the goods or handling those over to the transporter or to the driver will consitute an act subject to tax and VAT shall be assessed (VAT Code article 10/c).

In the event that goods are sent to agents / commissioners or to those acting as consignees, the act of delivery or the basis for taxation is not concluded from the standpoint of the supplier. The incident providing the basis for taxation is the delivery of goods to the buyer. (VAT Code article 10/d).

The agents / commissioners may sell the goods through negotiations with the buyer, when the goods are still in the hands of the supplier.Goods may be transferred to the final buyer, through consecutive agreements undertaken by two or more persons following one after the other without the goods actually change hands, in such cases, the steps in between will be accepted as separate acts of delivery (VAT Code article 2/2).

In case where it is customary to return wastes of goods and secondary items, delivery shall exclude such items. When those wastes and secondary items are replaced by the same type of material, the same practice will apply (VAT Code article 2/4).

In case of barter transactions, that is when goods are sold in return for other goods, two separate deliveries for two separate goods will be subject to VAT (VAT Code article 2/5).

In case of partial shipment, when it is customary or when parties agree, delivery or each part shall be subject to VAT assessment.(i.e. delivery of bedroom, living room furnitures at different times by the same seller).

Provision of utilities and distribution of water, electricity, gas, heating and similar services are accepted as delivery of goods (VAT Code article 2/3). In such distributions, when fees are due, VAT is to be assessed. (VAT Code article 10/2).

- Instances accepted as delivery:

According to article 3 of the VAT Code the following instances of special nature not covered by the above delivery description are accepted as delivery:

- Assets taken out from the business operation; giving away taxable goods for purposes of tax-exemption acts (such as donations, personal consumption, supplying samples) are also treated as delivery. VAT shall be levied on the basis of cost of such goods, if known, if not, on the basis of the equivalent value (VAT Code article 27/1).

- Funds granted to employees under titles such as wages, premiums, donations as well as handing over taxable goods to employees for whatever purpose, shall be treated as a "delivery". In such cases, VAT shall be levied on the basis of cost of such goods, if known, if not, on the basis of the equivalent value. (VAT Code article 27/1).

- Use or consumption of taxable goods for tax-exempted items: production, delivery and usage and consumption of taxable goods for tax-exempted items anyhow are considered "delivery" and are subject to VAT leviation.

- In the event that economic assets subject to depreciation produced or built for use in the business are entered into the books as assets in accordance with the provisions of the Tax Procedures Code, VAT shall be levied. The taxable incident is the entry of such values into assets or commencement or their use in the business.

VAT shall be levied on the basis of the cost of economic assets produced subject to depreciation. In case cost is not known, equivalent charge shall be taken as the basis. (VAT Code article 27/1).

MARMARA ÜNİVERSİTESİ YAYINEVİ

- **Service:**

"Service" is defined by the Statute as operations other than importation and deliveries. (VAT Code article 4/1).

The following operations are considered as services by the VAT Code article 4/1 to make, process, manufacture, repair, clean, evaluate, rent, and alike (VAT Code article 4/1). These are given as examples stated for clearly expressing the service concept. Service is not restricted by the above items.

The taxable incident occurs as and when the service is performed. (VAT Code article 10/a).

In the event that an invoice (or other documents used for an invoice) are issued before tha actual performance of the service, VAT shall be levied on the basis of the amount included in the invoice or such documents (VAT Code article 10/b).

In case partial performance of the service, where it is customary or when parties agree, each part of service performed shall constitute a taxable incident. (VAT Code article 10/c).

In leasing operations, taxable incident occurs as and when the rented goods is turned over for use by the lessor. (VAT Code article 10/h).

- **Responsibility for paying VAT.**

In principle, those undertaking the activities subject to VAT are the taxpayers. However, in article 8 of the Statute, taxpayers for various operations are prescribed in detail. Accordingly:

- Those undertaking the delivery of goods or performance of services,

- Importers of goods and services,

- In transit operations, those handling customs and entry transactions,

- General Directorate of PTT Operations and Radio and Television,

- Spor Toto, National Lottary Agencies and others engaged in similar games.

- Those organizing horse races and other games of luck,

- Those renting the goods and rights mentioned in article 70 of the Income Tax Code.

- Those applying for voluntary obligation.

Those who declare VAT in connection with transactions not subject to VAT or those who are not entitled to declare, VAT; but issue invoices (or documents in lieu) including VAT, shall be obliged to pay the amount of VAT declared. The same applies to those declaring a larger amount of VAT than what is accepted by the VAT Code article 8/2

Pursuant to article 9 of the said Statute, in case of persons who have no residence or registered business address in Turkey, in order to safeguard the payment of taxes, if deemed necessary, the Ministry of Finance and Customs may held persons being a party to the operations involved or other relevant persons responsible, for making the payment.

- Taxable value and the rate of VAT

In connection with delivery and service operations, the taxable value is the cost of the related goods and services. Cost means total interests, services or values expressed in cash, obtained from or indebted by the party receiving the taxable goods or services or those acting in their name, in the form of cash, goods or in any other form available (VAT Code article 20)

The operations where prices are fixed according to tariffs or when payment is received against issuing a ticket, tariffs and prices of tickets, shall be fixed including VAT.

In addition, taxable values in importations, international cargo and passenger transportation are prescribed by the said statute separately (VAT Code articles 21, 22, 23) explaining which items will be included in the taxable value. Accordingly, transportation performed by the supplier, up to the point of delivery designated by the buyer, loading and unloading expenses, cost of packaging, insurance, commission and similar charges,taxes, duties, contributions to fund, payment term differentials, price differentials, premiums and other similar earnings and all types of interests and values obtained in the form of services shall be included in the taxable value. Only discounts indicated in invoices or in similar documents, in the amounts compatible with commercial practice and the calculated amount of value added tax, shall be excluded from the taxable value (VAT Code article 25)

In the event that the cost does not exist or is unknown, or the value is expressed other than cash such as goods, or services, the taxable value shall be the equivalent value or equivalent charge. When the actual cost declared is clearly lower than the equivalant value or equivalent charge and when this lower cost cannot be justified by the taxpayer, the equivalent value or equivalent charge shall be taken as the taxable value. Provisions of the tax Procedures Code shall apply, to determine the equivalent value or equivalent charge.

MARMARA ÜNİVERSİTESİ YAYINEVİ

The rate of VAT applied to goods and services is 11 %. It will be 12 % on December 1, 1990.

- Deductions:

Taxpayers are allowed to deduct the following taxes from the amount of VAT they pay on account of operations subject to value added tax, they undertake provided that there are no provisions to the contrary.

- Amount of VAT included in invoices or documents of the same nature, issued for goods delivered or services rendered to them,

- VAT paid for imported goods or services,

In the event that the total amount of VAT to be deducted in a given tax period exceeds the total amount of VAT calculated on the basis of the taxpayer's taxable operations, the difference shall not be reimbursed to the taxpayer, but turned over the next period (VAT Code article 29)

The following VAT are not allowed to be deducted:

- VAT indicated in the purchasing documents issued in relation to delivery of goods and performance of services not taxable or tax-exempt or VAT included in the cost of such goods and services.

- VAT included in the purchasing documents of automobiles belonging to the business.

- VAT shown in the purchasing documents of goods lost.

- VAT paid in relation to expenses not deductable from revenues, in the calculation of profits pursuant to Income and Corporation Tax Codes.

VAT paid for assets subject to depreciation shall be deducted in the course of three years, in three equal amounts, starting on the tax period during which those assets are entered into the books and started to be used. (VAT Code article 31/1)

- Filing the declaration for VAT and timing

VAT shall be accrued upon the written declaration of the taxpayer or of those responsible for taxes, provided that there are no provisions to the contrary. (VAT Code article 40/1)

It is compulsory for the taxpayers to file a statement even under conditions they do not undertake any taxable operation in any tax period. (VAT Code article 40/3)

The tax periods for VAT are the one month periods, within the calendar year of activity.

It is compulsory that taxpayers file their statements latest until the evening of the 25th day of the month following the one during which the taxable incident took place. (VAT Code article 41/1).

Taxpayers under the obligation of filing a declaration and those responsible for withholding VAT, shall pay the VAT accrued within the time allowed for filing in the declaration.

- Procedural Provisions of Value Added Tax Code (VAT Code)

- Invoices and other Similar Documents:

Pursuant to article 53 of VAT Code, the term invoice and similar documents mean the same documents prescribed in the Tax Procedures Code.

- Recording of VAT:

Taxpayers of VAT, in addition to maintaining books according to article 17 of Tax Procedures Code shall also keep records of VAT pursuant to VAT Code. For this purpose, the following information, as a minimum, shall be included in the records (VAT Code, article 54)

- Nature of the taxable transactions, price before VAT, accrued and the deductable amount of VAT,

- The kind of tax-exempt transactions from the standpoint of deduction and the calculation of the deductable amount of tax,

- Kind of transactions not deductable and the amount of tax related to such transactions,

- Changes in the taxable and deductable amount of tax and paid, written off and reimbursed amount of tax,

- In addition, those dealing with goods, shall separetely mention goods subjecto to VAT and those exempted, in their inventory books at the end of the accounting term.

- RECORDING OF VAT IN THE BOOKS

In the preceeding paragrahps, general information is given about the procedural provisions of Value Added Tax Code related to documents to be issued and the records to be maintained.

In this section, recording of VAT in the books shall be explained by giving examples, without going into too much detail.

Accounts used for recording VAT are explained below:

- Value Added Tax Paid

The VAT paid for purchases of goods and the deductable amount of VAT pursuant to the provisions of the VAT Code will be entered into this account.

- Value Added Tax paid account for Economic assets subject to depreciation:

Value added tax paid for economic assets subject to depreciation are recorded in this account. VAT paid during the purchase of the fixed assets shall be deducted in three years time, in three equal installments, therefore, part of VAT related to that year shall be entered to the credit side of this account and on the debit side of the (deductable) VAT paid account.

- VAT received:

This shows VAT collected from customers in connection with sales undertaken.

- VAT transfered to the next period:

This is an account for recording the amont of VAT transferred to the next period for deduction, in the event that the total (deductable) VAT paid in a given tax period exceeds the total amount of VAT received (collected) during the same period.

- VAT payable

This account shows the amount of VAT received, in excees of the amount deducted and thus represents the amount of VAT to be paid to the tax office during the related tax period.

EXAMPLE 1

Transactions:

1) On 7.1.1990, 850.000 lira worth of goods were sold

   850.000 liras received from the customer for the goods and 93.500 liras for VAT.

2) On 10.11.1990, 400.000 worth of material was purchased from Ahmet Ak in cash

   400.000 liras paid for the material and

   44.000 liras paid for VAT.

3) On 18.11.1990 an icebox was purchased for use in the office worth 600.000 liras. In the invoice, issued by the supplier VAT was calculated as 66.000 liras.

4) On 25.11.1990, a 300.000 lira worth of goods were sold 300.000 liras were received from the customer for the cost of goods and 33.000 liras for VAT, thus adding up the total amount of cash collected as 333.000 liras.

	1990			
1	7.11			
	Cash		943.500.-	
		Sales		850.000.-
		VAT received		93.500.-
2	10.11			
	Inventory		400.000.-	
	VAT paid		44.000.-	
		Cash		444.000.-
3	18.11			
	Fixed Assets		600.000.-	
	VAT paid for fixed assets		66.000.-	
		Cash		666.000.-
4	18.11			
	VAT paid		22.000.-	
		VAT paid for fixed assets		22.000.-
5	25.11			
	Cash		333.000.-	
		Sales		300.000.-
		VAT received		33.000.-

Cash

1)	943.500	2)	444.000
2)	333.000	3)	666.000

Sales

		1)	850.000
		5)	300.000

Fixed assets

3)	600.000		

Inventory

	X		
2)	400.000		

VAT received

		1)	93.500
		5)	33.000
			126.500

VAT paid

2)	44.000		
4)	22.000		
	66.000		

VAT paid for fixed assets

3)	66.000	2)	22.000

Transactions to be recorded at the end of the tax period:

In the example given above, at the end of the tax period, total for the Account of (VAT RECEIVED) will read 126.500 liras, VAT PAID 66.000 liras, since the amount of VAT RECEIVED exceeds that of deductable VAT, both accounts shall be closed and the difference shall be transferred to the Account of VAT PAYABLE.

Thus, during this tax period, total VAT PAYABLE will be shown in the Account of VAT PAYABLE.When this amount is deposited in the Tax Office, this transaction shall be entered on the debit side of this account and to the credit side of the Cash Account. Records to be entered, at the end of the tax period are given below.

6 _____ 31.11 _____

VAT Received	126.500.-	
VAT Paid		66.000.-
VAT Payable		60.500.-

VAT Received				VAT Paid				VAT Payable			
6)	126.500	1)	93.500	2)	44.000	6)	66.000			6)	60.500
		5)	33.000	4)	22.000						
	126.500		126.500		66.000		66.000				

EXAMPLE 2

Transactions:

1) On 2.11.1990, 2.000.000 liras worth of goods were purchased from Ahmet Ak, in cash. VAT paid on the Invoice was 220.000 liras.

2) On 2.11.1990, 60.000 were paid for rent and since this place is the property of another commercial firm, 6.600 liras VAT was paid, thus, the total amount paid for rent added up to 66.600 liras.

3) On 12.11.1990, 8.000 liras was paid for electricity, plus 880 liras VAT.

4) On 24.11.1990, 750.000 liras worth material was sold, in cash, 750.000 liras was received from the customer for the cost of goods and 82.500 liras for VAT.

MARMARA ÜNİVERSİTESİ YAYINEVİ

1990

1	2.11				
	Inventory			2.000.000.-	
	VAT paid			220.000.-	
		Cash			2.220.000.-
2	3.11				
	Rent expense			60.000.-	
	VAT paid			6.600.-	
		Cash			66.600.-
3	12.11				
	Electricity expense			8.000.-	
	VAT paid			880.-	
		Cash			8.880.-
4	24.11				
	Cash			832.500.-	
		Sales			750.000.-
		VAT received			82.500.-

Sales

		4)	750.000

Inventory

1)	2.000.000		

Cash

4)	832.500	1)	2.200.000
		2)	66.600
		3)	8.880

VAT paid

1)	220.000		
2)	6.600		
3)	880		
	227.480		

VAT received

		4)	82.500

Electricity expense

3)	8.000		

Rent expense

2)	60.000		

Transactions to be recorded at the end of the tax period:

At the end of first tax period, total of the VAT PAID will read 227.480 liras, VAT RECEIVED account will read 82.500 liras. In other words, this business paid 227.480 liras VAT for the purchasing of goods and services, and collected 82.500 liras VAT from sales.

VAT Code provides for offsetting the amount of VAT paid against the amount of VAT received.In case the amount of VAT received is higher than the amount of VAT paid, the difference shall be transferred to the account of VAT payable, if the amount of deductable VAT is higher in that case difference shall be recorded in the account of VAT transferred. In this example, deductable VAT (VAT paid) exceeds VAT received, accordingly the following journal entry shall be made.

5 ——— 30.11 ———

VAT received	82.500.-	
VAT transferred	144.980.-	
VAT paid		227.480.-

Sales

	4) 750.000

Rent expense

1) 60.000	

Electricity expense

3) 80.000	

Inventory

1) 2.000.000	

Cash

X	1) 2.220.000
4) 832.500	2) 66.600
	3) 8.880

VAT paid

1) 220.000	5) 227.480
2) 6.600	
3) 880	
227.480	227.480

VAT received

5) 82.500	4) 82.500
82.500	82.500

VAT transferred

5) 144.980	

During the second tax period, the total in the VAT transferred account shall be entered, again, in the (deductable) VAT paid account, thus it will be possible to offset this amount against the VAT received in the course of the second tax period. The following entries shall be made at the beginning of the next period.

MARMARA ÜNİVERSİTESİ YAYINEVİ

6 _____ 1.12 _____

VAT paid 144.980.-

VAT transferred 144.980.-

_____ _____

VAT paid				VAT transferred			
1)	220.000	5)	227.480	5)	144.980	6)	144.980
2)	6.600				144.980		144.980
3)	880						
	227.480		227.480				
6)	144.980						

295 ACCOUNTING FOR PROVISIONAL TAXES

General information concerning provisional taxes

Statute 3505 published in **Official Gazette** number 20015 dated 10 December 1988 abolished the principle of "internal withholding" that existed in the Turkish income and corporate tax system and replaced it with "provisional taxation".

This "provisional taxation" that replaced "internal withholding" is a form of tax liability that does not have the nature of final taxation inasmuch as it is calculated and paid during the current year so that it may be offset in the future. It is based on the income of those with a corporate tax liability and of those with commercial earnings and of self-employed individuals whose income is determined on a real basis and it is offset against their corporate or income taxes for the current tax period.

In March of the current year, those with commercial and self-employment earnings whose income is determined on a real basis must declare 30 % (Council of Ministers resolution number 89/13876 dated 23 March 1989) of their income declared for the previous year as provisional tax and the first of its twelve equal installments must be paid during the month of March in which the annual declaration is filed. The remaining installments are paid by the evening of the twentieth day of each month thereafter. Provisional tax is offset against the income tax calculated on the basis of the annual declaration filed for the year with which it is concerned. (Income tax general communique number 157, **Official Gazette** number 20102 dated 8 March 1989)

Those with a corporate tax liability (capital companies cooperatives, state economic institutions, the commercial enterprises of associations and foundations)

calculate their provisional tax during the current year on the basis of the corparate tax declaration they file for the previous tax period. They pay its first installment during the month of April (when the declaration is filed) and the remaining installments by the evening of the twentieth day of each month thereafter.

The amount of provisional tax that corporations (including those that declare a loss) must pay cannot be less than 50 % of the corporate tax that would be payable on the figure arrived at by multiplying the standard of living basic indicator for first class merchants under the Income Tax Code by the number of partners in the company. (The minimum provisional tax for corporations with more than five partners is calculated on the basis of only five partners.) Provisional tax is offset against the corporate tax calculated on the basis of the corporate tax declaration filed for the fiscal year with which it is concerned. (Corporate tax general communique number 38, **Official Gazette** number 20149 dated 25 April 1989)

Provisional tax accounting

In the foregoing section information was provided concerning provisional taxes in our corporate and income tax codes. In this section we will be explaining how provisional taxes are entered into the books by means of the following simplified examples.

Example 1

Ahmet Ak is a business enterprise that is subject to the income tax on a real basis. Its commercial earnings in the annual income tax declaration it filed in March 1990 for the year 1989 amounted to TL 12.000.000. On the basis of the taxpayer's circumstances, its standard of living basic indicator is TL 10.000.000. Because the taxpayer's commercial earnings are in excess of the latter amount, it will calculate its income tax for 1989 and the amount of its provisional tax for 1990 on the basis of TL 12.000.000.

The income tax on its commercial earnings in 1989:

TL	6.000.000	x 0.25 =	TL	1.500.000
TL	6.000.000	x 0.30 =	TL	1.800.000
TL	12.000.000		TL	3.300.000

The amount of provisional tax to be declared:

TL 3.300.000 x 0.30 = TL 990.000

The amount of each provisional tax installment:

TL 990.000 / 12 months = TL 82.500.

These transactions would be recorded on the books as follows:

JOURNAL ENTRIES

73 ——— 31.3 ———

Prepaid income tax account 990.000.-

Provisional taxes payable 990.000.-

Provisional tax accruals for 1990

74 ——— 31.3 ———

Provisional taxes payable 82.500.-

Cash 82.500.-

Payment of provisional tax installment for March 1990
against tax office receipt number 72520

——— ———

GENERAL LEDGER ACCOUNTS

Prepaid income tax account

73)	990.000		

Provisional taxes payable

74)	82.500	73)	990.000

Cash account

—		74)	82.500

In the months after March 1990, provisional taxes would be paid to the tax office by the evening of the twentieth day of each month.

Example 2 ·

X Inc is a joint-stock company with five stockholders. The corporate earnings it declared in April 1990 for the year 1989 amounted to TL 40.000.000:

Taxable basis for corporate tax basis	:	TL	40.000.000
Calculated corporate tax (40.000.000 x 0.46)	:	TL	18.400.000
Provisional tax to be declared (18.400.000 x 0.50)	:	TL	9.200.000
Monthly provisional tax installment (9.200.000 / 12)	:	TL	766.667

These transactions would be entered into the books as follows.

MARMARA ÜNİVERSİTESİ YAYINEVİ

92 ———— 30.4 ————

Prepaid corporate tax 9.200.000.-

Provisional taxes payable 9.200.000.-

Accrued provisional tax for 1990

93 ———— 30.4 ————

Provisional tax payable 766.667.-

Cash 766.667.-

Provisional tax payment for April 1990

———— ————

GENERAL LEDGER ACCOUNTS

Prepaid corporate tax

92)	9.200.000		

Provisional taxes payable

93)	766.667	92)	9.200.000

Cash account

	—	93)	766.667

In the months after April 1990, provisional taxes would be paid to the tax office by the evening of the twentieth day of each month.

Year - end provisional tax transactions

The amounts of provisional taxes paid to the tax office during the year are entered into a prepaid income tax or a prepaid corporate tax account during the year so that they may be offset against the corporate or income tax that is assessed at year end. At the end of the year this account is transferred over to the income tax payable or coprorate tax payable account and closed out. If the amount of income tax or corporate tax that accrues by the end of the year is greater than the total amount of income tax or corporate tax (provisional taxes) prepaid during the year, the balance must be paid to the tax office within the legally required period. If the year - end accrual of income tax or corporate tax is less than the amount of provisional tax paid during the year, the difference is held in a temporary account and offset against provisional taxes payable in the subsequent periods. This amount is deducted from the provisional tax payable in later periods.

Example

"X" Inc paid a total of TL 10.000.000 in provisional taxes during the year. The amount of corporate tax accrued as of the end of the year on the other hand is TL 18.000.000. Thus X Inc's accounting entries will be as follows:

JOURNAL ENTRIES

105 ———— Dec. 31.1989 ————

Profit & loss account	18.000.000.-	
Corporate tax payable		18.000.000.-

Corporate tax accrued on corporate earnings in 1989

106 ———— Dec. 31 ————

Corporate tax payable	10.000.000.-	
Prepaid corporate tax		10.000.000.-

Offset of prepaid corporate tax against corporate tax accrual

———— ————

GENERAL LEDGER ACCOUNTS

Profit & loss account

105)	18.000.000		

Corporate tax payable

106)	10.000.000	105)	18.000.000

Prepaid corporate tax

	10.000.000	106)	10.000.000
	10.000.000		10.000.000

As the calculations above indicate, the amount of corporate tax payable to the tax office is (18.000.000 – 10.000.000) TL 8.000.000.

296. PROVISIONS OF LAW CONCERNING REQUIRED BOOKS AND THEIR MAINTENANCE

MARMARA ÜNİVERSİTESİ YAYINEVİ

REQUIRED BOOKS AND TAX LAW

Tax codes divide required books into two important categories: books whose maintenance is obligatory and books whose maintenance is optional. While the law requires that the first category of books be kept, keeping the second category is left up to the owner of the business.

From the standpoint of tax law, such a distinction is important inasmuch as failure to maintain the books that the law stipulates is a tax offense and thus leaves the business owner exposed to penalties. It is absolutely essential therefore that these books be maintained. Books that are optional – that is, whose maintenance is voluntary – may or may not be kept though of course if they are kept, accounts and records will be more orderly and it will be possible to obtain information from the accounting department more easily and in greater detail.

The Turkish tax system divides business enterprises into two categories from the standpoint of the books they must keep. **First class merchants** are obliged to maintain their books on a balance - sheet basis. Businessmen with big turnovers and commercial concerns of all types keep books in this way. The other category is called **Second Class merchants** and they keep their books on the basis of a trading account (operating account). "Second class merchants" are generally tradesmen who are involved in relatively fewer transactions and are not engaged in major business undertakings; in order to avoid imposing a heavy burden upon them, the law stipulates that they may keep books on a trading account basis, which entails fewer formalities and is simpler and less complicated.

Books that First class merchants must maintain

As we have indicated above, the Tax Procedures Code requires First class merchants to keep their books on a balance - sheet basis. The minimum requirement of books for this method are the following:

- Journal
- General ledger
- Inventory and balance sheet book
- Daily cash register (cash book)

Let us examine these books in greater detail.

The journal is a book in which transactions that need to be recorded are regularly entered in their chronological order.

The general ledger is a book into which transactions that were entered into the journal are posted (transferred) having been properly classified according to type of account.

Entries in the inventory and balance - sheet books begin on the first day of business and the results are shown in the inventory and balance sheet drawn up at the end of every fiscal year (that day being called the "balance - sheet day"). The inventory and balance - sheet books pages and volumes must be consecutively numbered.

The daily cash register is a book into which an enterprise's cash - related transactions are recorded day by day. (Until 1981, it was not a requirement that this book be kept. By means of an addition that Statute 2365 made to article 185 of the Tax Procedures Code, this register was included among the required books whose maintenance is required by law).

Books that Second class merchants must maintain

The trading account register is the principal book that second class merchants must maintain. A trading account register (operating account book) is a book that is maintained on a simple (single - entry) basis: expenditures and purchases are recorded on the left - hand page and sales and proceeds are recorded on the right - hand page. It is not our intention here to examine either the principles or the rules concerning the maintenance of trading account. We should note that if a person who is required to maintain books on a trading account basis wishes to keep the records on a balance - sheet basis, his request will be granted and he need not then maintain a separate trading account register. In this sense therefore, maintaining books on a balance - sheet basis is a more general and legally - recognized method.

The other required book that Second class merchants must maintain is the daily retail sales and proceeds register. In this register one records daily retail sales and other business proceeds.

General Tax Procedures Code communique number 167 from the Ministry of Finance and Customs, which was published in Official Gazette number 18975 dated 31 December 1985, rescinded the obligation to maintain a daily retail sales and proceeds register in the case of taxpayers who were Second class merchants and whose sales were entirely on a wholesale and invoiced basis and of those taxpayers who were Second class merchants who made use of payment - recording cash registers pursuant to Statute 3100.

Both classes of merchants are obliged to comply wih the following rules of law in the books that they maintain.

RULES CONCERNING THE MAINTENANCE OF BOOKS

Commercial and legal required books cannot be maintained according to every business owner's or accountant's whim: there are certain rules that must be complied with when registers are opened, written into, and closed. The Tax Procedures Code attaches great importance to these points and imposes a number of rules. Let us now review them briefly.

Books must be maintained in Turkish:

The law requires that commercial and legal required books (and all records and entries pertaining to them) be maintained in Turkish.It is not possible, for example, for an American company operating in Turkey to maintain its books in English.

Books must be maintained in ink:

It is necessary that books and records be maintained in ink. The law makes one exception concerning register totals and allows them to be provisionally written in pencil until the accounts have been closed out.After final results have been obtained and the accounts are closed however, any pencilled - in totals must also be written in ink.

The pages of books must not be torn out or defaced:

Books of account and commercial records must be well protected and must not be out of order by ink or stains; their pages must not be torn out or defaced. A register whose pages have been removed or lost is a statutory offense and so a person maintaining books must take good care of them.

Entries must be recorded within ten days:

Transactions must be entered into the books in time. Failure to delay an entry for more than ten days (without an acceptable reason or excuse) can be fined as a tax irregularity. Situations such as illness and travel are considered acceptable excuses. In all other cases, entries must be made within ten days.

Books and documents must be retained for five years:

All books of account and documents that businesses keep must be retained for a period of five years. This five - year period does not include the year in which the books were kept however: all books for fiscal year 1978 for example would have to be retained until the end of 1983. (According to the Turkish Commercial Code on the other hand, books must be retained for ten years).

Books and documents must be presented on demand:

During the five - year period of retention, books and documents must be presented immediately upon the demand of authorized agencies and officers.In other

words, if a controller (auditor) during this period were to demand books and documents that were kept, the owner of the business would have to present them. Failure to surrender or present books and documents is a punishable offense.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Entry lines must not be left blank:

There is one final obligation concerned with bookkeeping that we need to point out. The places in books where entries are to be made cannot be left blank or skipped over unless they have been crossed out.

Correcting wrong entries:

A completely mistaken entry in the journal must be corrected according to the rules of accounting: the mistaken entry should be cancelled by means of a reverse entry and then a separate, correct entry should be made.

Any other mistakes in figures or words that take place in books entries and records may be corrected only by crossing out the mistaken entry (in such a way as to leave it legible) and then writing the correction immediately above or alongside it or else in the account with which it is concerned. It is forbidden for records that have been entered into books to be made illegible by means of scratching them out, erasing them, or obliterating them.

Examples:

- Assume that 'X' Co. collected 2.000.000 cash from 'Y' Co. to apply on account. This transaction is journalized as follows:

Cash	2.000.000.-	
Accounts Receivable Y. Co.		6.000.000.-

The error is made in the amount (6.000.000)

The reversing entry to cancel the previous journal entry is shown below:

Accounts Receivable 'Y' Co.	6.000.000.-	
Cash		2.000.000.-

The correct entry will be;

Cash	2.000.000.-	
Accounts Receivable 'Y' Co.		2.000.000.-

- Assume that 'X' Co. purchased merchandise for 10.000.000.- cash. This transaction is journalized as follows:

Purchases	10.000.000.-	
Notes Payable		10.000.000.-

The error is made in the name of the credited account.

Reversing entry:

Notes Payable	10.000.000.-	
Purchases		10.000.000.-

Correct entry:

Purchases	10.000.000.-	
Cash		10.000.000.-

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA
ÜNİVERSİTESİ

3. ACCOUNTING FOR ASSETS, LIABILITIES AND OWNERS' EQUITY

MARMARA ÜNİVERSİTESİ YAYINEVİ

30. CHART OF ACCOUNTS

An accountant numbers the accounts in order to find an account in the ledger easily.A list of these numbers with the corresponding account names is called a **chart of accounts**. A chart of accounts lists balance sheet accounts and income statement accounts. Account titles are carefully chosen to reflect the nature of the accounts.

The chart of Accounts of "Y" company is illustrated below.

"Y" Co.

Chart of Accounts

Asset accounts 100 - 199

101 Cash on hand
102 Cash in bank
103 Marketable Securities
104 Accounts Receivable
105 Notes Receivable
106 Notes Receivable in Collection
107 Pledged Notes Receivable
108 Discounted Notes Receivable (-)
109 Value Added Tax Paid
110 Prepaid Expense
111 Revenues Receivable
112 Advances to Suppliers
113 Doubtful Accounts
114 Allowance for Doubtful Accounts
115 Inventory
116 Allowance for Damaged Inventory (-)
117 Other Accounts Receivable
130 Investment in Bonds
131 Investment in Stocks
140 Property, Plant and Equipment
141 Land
142 Building
143 Machinery

145 Accumulated depreciation (-)
150 Patents
151 Goodwill
152 Franchises
153 Organization Costs

Liability accounts (200-299):

201 Accounts Payable
202 Notes Payable
203 Bank Loan
205 Taxes Payable
206 Value Added Tax Received
207 Social Security Premiums Payable
210 Dividends Payable
220 Advances from Customers
222 Revenues Received In Advance
230 Expenses Payable
235 Other Accounts Payable
240 Bonds Payable

Capital accounts (300 - 399):

301 Capital Stock
302 Retained Earnings
303 Dividends

Revenue accounts (400 - 499):

401 Sales
402 Sales returns and allowances (-)
403 Sales discounts (-)
405 Other revenues and gains

Expense accounts (500 - 599):

501 Purchases
502 Purchase returns and allowances (-)
503 Purchase discounts (-)
504 Transportation on purchases
505 Cost of goods sold
510 Salary expense
511 Employer's social security premiums

520 Rent expense
521 Advertising expense
522 Shipping expense
530 Interest expense
531 Insurance expense
532 Miscellaneous expense
540 Depreciation expense
550 Bad debts expense
555 Other expenses and losses

MARMARA ÜNİVERSİTESİ YAYINEVİ

31. INVENTORY: DEFINITIONS, TYPES, AND PROCEDURES

Article 73 of the Turkish Commercial Code (TTK) provides a broad definition of "inventory":

"Taking inventory: making an absolute and detailed determination of assets, claims, and liabilities on the balance - sheet day by means of counting, measuring, weighing, and appraising. The expression 'assets, claims, and liabilities' means the economic values that are part of a business enterprise.

"In basic practice, the inventory shall be reflected in the books; however large enterprises that make extensive use of a variety of goods in their work may draw up their inventories in the form of lists in which case the contents of the lists shall be summarized in the inventory books."

Article 186 of the Tax Procedures Code (VUK) also provides the following definition:

"Taking inventory means determining absolutely and in detail all assets, receivables and payables on the balance sheet date by means of counting, measuring, weighing, and evaluating them".

"However, the values of properties whose weighing, counting or measuring are not customary in accordance with commercial practice may be determined by means of estimation".

"Assets, receivables, and payables consitute the economic values of an enterprise".

However in the case of inventory lists it is necessary that "their pages will be arranged in numerical order: they will be dated according to the date the inventory was taken; they will be signed by the officer taking the inventory as well as by the owner of the enterprise or his representative; and they will be retained exactly like an

inventory book." (VUK 188)

MARMARA ÜNİVERSİTESİ YAYINEVİ

Article 72 of the Turkish Commercial Code specifies the time and business year for which inventories are to be taken:

"Inventories and balance sheets taken on the date the enterprise opens and at the end of each subsequent year shall be recorded in the inventory book.

"The date with which the inventory and balance sheet are associated shall be called the 'balance - sheet day'.

"A" business year cannot be less than six months or more than twelve months. So long as no contrary provision is made by law, inventories and balance sheets drawn up for the end of a business year must be completed within the first three months of the next business year."

Article 185 of the Tax Procedures Code makes the following stipulation concerning the inventory day and the business year:

"Inventories and balance sheets drawn up on the date of the commencement of work and at the conclusion of each subsequent accounting period shall be recorded in the inventory book, this day being referred to as the 'balance sheet day'."

Inventories and balance sheets must be drawn up in Turkish lira (national currency) value units.

Inventories and balance sheets must be drawn up in the Turkish language.

310 TYPES OF INVENTORIES

CLASSIFICATION ACCORDING TO WHY THE INVENTORY IS MADE

- Start - up inventory

This is an inventory that is taken in order to show the details of the capital that is set aside for the establishment of an enterprise and of its tangible and intangible assets.

- End - of - term inventory

This is an inventory that is taken for the purpose of seeing the results of an enterprise during a particular period of activity.

- Turnover inventory

This type of inventory is drawn up whenever an enterprise's assets or liabilities are turned over to someone else.

MARMARA ÜNİVERSİTESİ YAYINEVİ

- Liquidation inventory

This is an inventory that is drawn up in order to see the consequences that would result from the liquidation of a commercial enterprise.

CLASSIFICATION ACCORDING TO WHERE THE INVENTORY IS MADE

- Preclosing inventory

This is an appraisal of the values and assets represented by the account balances in the preclosing trial balance sheet on the inventory day that is made by counting, weighing, measuring, estimating etc. them according to type.

- Closing inventory

In cases where the values determined as a result of a preclosing inventory are compared with the accounts representing those values and are not the same, entries are made in order to amend the accounts so that they show the true situation.

Inventory Procedures

The sequence of procedures of inventories conducted in business enterprises are shown below.

- Physical counting (counting, measuring, weighing)

- Valuation

- Amending accounting records as required according to the results of the physical counting and valuation.

32. VALUATION

"Valuation" is the act of expressing, in terms of monetary units and on some specific date, the value of the individual assets and liabilities that constitute the existence of a business enterprise.

Valuation may be conducted according to a number of different criteria depending upon the results one wishes to achieve and the purpose of the valuation itself. Valuation criteria need to be discussed and judged according to their particular aims: it would be incorrect to make hypothetical comparisons among the criteria themselves and one should always keep in mind where they are to be used. (The criteria of valuation when determining the basis for a tax assessment are not, for example, the same as those that would be used in turning out a liquidation inventory.)

To repeat: the criteria for valuation will differ according to the aims of the valuation. Valuation criteria also need to be employed with the realization that the act of assigning a value to an economic element is fundamentally a subjective one.

Under Turkish law, valuation criteria may be divided into two separate categories that depend on how they are used in drawing up fiscal and commercial balance sheets.

320. VALUATION WHEN PREPARING COMMERCIAL BALANCE SHEETS

When we examine the provisions of the Turkish Commercial Code (TTK) concerning the valuation procedures that need to be complied with when drawing up commercial balance sheets, we see that among the matters to which attention is given are the protection of the interests of third parties in the calculation of the profits that the enterprise has secured and in the declaration of them to those concerned. Putting it another way, personal firms and companies are more or less at liberty in their use of valuation criteria while capital companies are obliged to make their valuations according to whichever criteria yield the lowest possible value. This is in keeping with the principle of preserving the value of the company capital that stands as guarantee against any claims third parties may have over the company. This matter is governed by article 75 of the Turkish Commercial Code and reads as follows:

"In order to ensure that those concerned will be able to acquire an idea of the enterprise's economic aad financial position that is as correct as possible, inventories and balance sheets must be drawn up so as to be complete, clear, and easily intelligible in accordance with commercial principles and in terms of the national currency.

"All assets shall be recorded at the value that they possess as of the balance sheet day at most. Commodities and instruments that are quoted on an exchange shall be calculated at their market value on that day while all claims (with the exception of those that cannot be collected or are under dispute) shall be calculated according to their nominal values.

"Liabilities —and in particular all debts— shall be entered into the accounts at their nominal value even if they are contingent or have a maturity (due) date.

"Special provisions concerning the inventories and balance sheets of commercial companies and commercial incorporations are reserved."

321. VALUATION WHEN DRAWING UP FISCAL BALANCE SHEETS:

The object when evaluating inventory lists as the basis for drawing up a fiscal balance sheet is to ensure equitableness and objectivity in the imposition and collection of taxes.

Definition and characteristics of valuation

Definition:

Article 258 of the Tax Procedures Code defines valuation as follows:

"Valuation is the valuation and determination of economic assets as they relate to the calculation of the basis for tax assessments."

The expression "economic assets" in this provision concerning valuation is taken to mean all properties, rights, claims, liabilities, etc. that are included in the inventory list according to which the basis for one's tax assessment is determined.

Principals in valuation:

Each item in the inventory list is considered individually when an valuation is made though it is possible for goods that are considered to be of the same type according to commercial custom and practice as well as low-value waste, scrap, remnants, and worthless goods to be evaluated as a group. This matter is governed by article 260 of the Tax Procedures Code, which reads:

"In valuations, each economic asset shall be taken separetely into consideration. It shall be permissible for properties that are customarily considered to be of the same type and for sundry articles of low value to be considered in lots."

The items on an inventory list also have to be evaluated as of the date of the balance sheet. This matter is governed by article 259 of the Tax Procedures Code which reads:

"The values that economic assets possess on the days and at the times stipulated in tax laws shall serve as the basis in valuations."

Article 261 of the Tax Procedures Code governs the criteria that are to be employed in valuations and reads as follows:

"Valuations shall be made on the basis of one of the following criteria, depending upon the type and nature of the commerical asset:

a) Cost value
b) Market value
c) Present value
d) Recorded value (written value)

e) Nominal value
f) Equivalent value and equivalent charge.
g) Current value
h) Tax value

MARMARA ÜNİVERSİTESİ YAYINEVİ

When drawing up their fiscal balance sheets, taxpayers are not completely at liberty however to use the criteria for valuation enumerated in this article as they please: the law prescribes which of these criteria are to be used in the valuation of which assets and those making such valuations are bound by law to comply.

Let us now briefly discuss these valuation criteria.

a) Cost value:

Article 262 of the Tax Procedures Code defines cost value as follows:

" 'Cost value' refers to the total of payments made on account of the acquisition of a commercial asset or else for the increase in its value, as well as all expenses associated therewith."

This provision makes a general definition of cost value, according to which the cost value is the sum of the cost of purchasing an asset plus any payments that may have been made to increase its value or that are concerned with it. When calculating "costs" it is worth noting that general expenses is not included in calculation.

b) Market value:

Article 263 of the Tax Procedures Code defines market value as follows:

" 'Market value' refers to the average values of commercial assets registered on the securities and exchange market or else on commercial markets on the basis of market transactions on the final date of transaction prior to their valuation."

c) Present value:

Present value is the true value that an economic asset represents for its owner on the date of valuation. For example,in the case of notes receivable, there are two values on the date of valuation: the nominal (or face) value that the note bears and its present value.

This present value is the value resulting after the amount of interest that would accrue between the date of the valuation and the date of the note's maturity is subtracted from the nominal value. That is the note's present value. In other words, present value means the true value that an economic asset would generate for its owner if he had to dispose of it on the date of its valuation.

d) Recorded (written) value:

Recorded value is defined in article 265 of the Tax Procedures Code as follows:

MARMARA ÜNİVERSİTESİ YAYINEVİ

"The recorded value is the book vlaue of an economic asset shown in accounting records."

This article indicates that when valuations are made on the basis of recorded value, the value indicated in the books of account is to be taken exactly.

For example organization and incorporation expenses as well as accounts that deal with the relations between fiscal years such as prepaid expenses, revenues collected in advance, accrued expenses to be paid, and Revenues to be collected are all evaluated at their recorded value.

e) Nominal (face) value:

Article 266 of the Tax Procedures Code defines nominal value as follows:

" The nominal value is the value indicated on any and all types of notes, stocks and bonds."

The provisions of this article clearly stipulate that notes, stocks, and bonds are to be evaluated at the value that is written on them.

f) Equivalent value and equivalent charge:

Article 267 of the Tax Procedures Code defines and discusses equivalent value as follows:

"The equivalent value is the amount that a property that lacks a true value or whose value is unknown or indeterminate, would bring in if its equivalent were sold on the date of valuation.

"Equivalent value shall be determined in accordance with the following principles in order of preference:

"First preference: the criterion of average price. If sales of the same or similar types of properties in that order were made during the month in which valuation is carried out, or in the previous month or in the months prior to that, then the equivalent value shall be calculated by means of an 'average sales price' to be arrived at by the taxpayer in accordance with the amounts and values of such sales. In order for this criterion to be employed, it is a prerequisite that the volume of monthly sales not be less than 25 % of the amount of each item of property whose equivalent value is to be determined.

"Second preference: the criterion of cost. If the cost of the property whose equivalent value is known or can be determined, then the taxpayer himself shall

personally specify the equivalent value by adding to its cost 5 % in the case of wholesale sales and 10 % in the case of retail sales.

"Third preference: the criterion of evaluation. Equivalent values which cannot be determined on the basis of the foregoing criteria shall be set by an evaluation commission upon the application of those concerned. Evaluations shall be carried out by means of investigating the cost and market values, and — in the case of used articles — by additionally taking into consideration the degree of wear and tear. The right of taxpayers to initiate proceedings in the tax courts against evaluated values shall be reserved. Nevertheless, the initiation of action shall not halt the accrual or collection of the tax.

"In cases where the equivalent value is calculated personally by the taxpayer himself, records and schedules pertaining to such calculations shall be retained by him as evidential documents.

"The values set by judicial authorities without being bound by the foregoing principles as well as the elements included in degrees determining the criteria of agricultural earnings shall take the place of the equivalent value.

"In the case that the true amount of a charge is unknown or is not directly determinable in manufacture performed for a charge, the equivalent charge to be determined shall be established on the basis of the same principles."

As may be seen, equivalent value is the value that an asset whose true value on the date of valuation is not definite or cannot be correctly determined would have in the event of its sale, as compared to an asset that was similar.

Equivalent value is determined in the order of the methods specified in the article. If an item's value can be determined on the basis of the first method for example, the law does not allow one to skip over it to the second or third. Judicial authorities (courts for example or tax commissions) may make use of these criteria without being bound by the order in which they appear in the article.

The last paragraph of the clause stipulates that if the true value of a charge in manufacturing performed for a price cannot be known, an equivalent charge is to be determined on the basis of the same principles.

g) Current value:

This is the normal trading value of an asset on the day of valuation.

h) Tax value:

Article 268 of the Tax Procedures Code defines tax value as follows:

"The tax value shall be the current value of buildings and of land. This value shall be set in accordance with the provisions of article 29 of the Real Estate Tax

Code and with those of the regulations specified in the same article."

An attempt has been made here to discuss the various criteria for valuation as provided for in the Turkish Commercial Code and in the Tax Procedures Code. The question of which criteria are to be used in the valuation of which assets however will be indicated later when each type of asset is dealt with individually.

33 ACCOUNTING FOR ASSETS

The first notation on the asset side of the balance sheet is **Current Assets.** In general current assets include cash and those assets which, in the normal course of business, will be turned into cash in the reasonably near future, usually within a year from the date of the balance sheet. Current assets include primarily:

- Cash
- Marketable Securities (short - term investments)
- Receivables
- Inventories

These assets are known as working assets; inventories, when sold, become accounts receivable; receivables upon collection become cash; cash is used to pay debts and running expenses.

Long - lived assets (noncurrent assets) include plant assets, intangible assets, long - term investments which a firm plans to own for a number of years. Investments do not represent a firm's main source of revenue, but they are acquired for various reasons. For example, a firm might purchase the common stock of another company in order to control certain actions of that company.

330 ACCOUNTING FOR CASH

Cash, refers to cash on hand in the business. Sometimes, it also refers to cash in banks. The term cash is used to mean currency and coins, checks on hand, postal money orders and other media of exchange. The cash is reported on the balance sheet at the face amount. When cash is received, the cash account is debited and when cash is paid out, the cash account is decreased by a credit for the amount disbursed.

Receipts and payments of cash may be summarized as follows:

- Proceeds of cash sales	- cash purchases
- collections on account	- payments on account
- collections of notes receivable	- payments of notes payable
- receiving checks	- endorsement of checks
- postal money order through the mail.	- payment of expenses
- withdraw from a bank	- payment of dividends
- collections of revenues	- payroll payment

MARMARA ÜNİVERSİTESİ YAYINEVİ

'Cash short' and 'Cash over' Account

The physical control and safeguarding of cash is a matter of concern to the accountant. At the end of the accounting period if any differences between the balance of the cash account and the cash on hand are discovered, a cash over or a cash short account must be established to record the difference.

- Assume that the cash account has a debit total of 100.000.000 TL. and a credit total of 89.000.000 TL. If the currency in the safe is 10.500.000 TL. a cash short account must be established to record the difference.

Cash	
–	–
–	–
–	–
100.000.000	89.000.000
	500.000
100.000.000	89.500.000
Debit Balance	10.500.000

Cash short	
500.000	

Cash short		500.000	
	Cash		500.000

- Assume that the cash account has a debit balance of 11.000.000 TL.

Cash	
–	–
–	–
100.000.000	89.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

The currency in the safe is 11.400.000 TL. A cash over account must be established to record the difference.

Cash		400.000
	Cash over	400.000

Cash	
–	–
–	–
100.000.000	89.000.000
400.000	
100.400.000	89.000.000
Debit Balance	11.400.000

Cash over	
	400.000

If the accountants fail to disclose the cause of the shortage or overage, they may close the accounts along with other revenue and expense accounts.

Petty Cash

The term 'petty cash' (imprest cash) refers to a fund of fixed amount used for making small expenditures that are paid in cash. The petty cash fund should be sufficient to meet the need for small cash payments for three or four weeks.

The petty cash is operated as follows:

- Establishment of the fund:

A check is drawn for a round amonut and cashed.

Petty cash		100.000
	Cash	100.000

Petty Cash	Cash	
100.000	X	100.000

- Disbursements from the fund.

When expenditures are made, receipts must be saved to show what money was spent for and a list of expenditures should be prepared at the end of certain periods.

- Replenishment of the fund

When the petty cash expenditures have nearly exhausted the fund, it is necessary to replenish it and the journal entry for disbursements from the fund will take place at the time of replenishment.

Transportation in	12.000		
Office supplies	15.000		
Other expenses	8.000		
Misc. expenses	7.000		
Delivery expenses	9.000		
Stationary expenses	15.000		
	Petty Cash		85.000

Petty Cash		Cash	
100.000	85.000	X	100.000

Petty cash		100.000	
	Cash		100.000

Bank Account

Banks are safe depositories of cash. When money is deposited with a bank, 'Cash in bank' account is debited and 'Cash' account is credited. When money is withdrawn from a bank or a check is made out and given to a specified person, for certain kinds of debts, 'cash in bank' account is credited. The use of checks for disbursements improves control by minimizing the amount of currency on hand. The checks are documents that directs a bank to pay an indicated amount of cash to a specified party. When checks are received from the debtors 'cash' account is debited. Although there may be a time lag between the issuance of a check and the transfer of funds, checks are assumed as cash, because they should be paid at sight.

The debit and the credit records of 'cash in bank' account may be summarized as shown below:

MARMARA ÜNİVERSİTESİ YAYINEVİ

- Depositing money with the bank	- Withdrawing money
- Depositing checks with the bank	- Issuing checks
- Money remittance	- Charging service fees
- Transferring from bank loan	

Bank reconciliations

The bank and the firm keep parallel records. The balance on December 31, is an asset on the depositor's books and it is a liability on the books of the bank. Banks debit the depositor's account for checks paid by the bank and credit the account for additional deposits.

Bank reconciliation is a comparison of the record provided by the bank satetement with the record provided by the firm's own 'cash in bank' account. The depositor tries to make sure that all receipts and disbursements are accounted for. The bank statement shows withdrawals as debits and deposits as credits.

Bank statement of 'A' Bank (December 31, 1990) is shown below.

Date	Explanation	Withdrawals	Deposits	Balance
		–	1.000.000	1.000.000
		500.000	–	500.000
		–	2.000.000	2.500.000
		–	300.000	2.800.000
		200.000	–	2.600.000
		600.000	–	2.000.000
		–	4.000.000	6.000.000
		2.000.000	–	4.000.000
		3.300.000	7.300.000	

Cash in Bank Subsidiary Account 'A' Bank

Date	Explanation	Deposit	Withdrawals	Balance
	deposit	1.000.000	–	1.000.000
	check issue	–	500.000	500.000
	.	2.000.000	–	2.500.000
	.	300.000	–	2.800.000
	.	–	200.000	2.600.000
	.	–	600.000	2.000.000
	.	4.000.000	–	6.000.000
	.	–	2.000.000	4.000.000
		7.300.000	3.300.000	

The debit total of the bank statement must be equal to the credit total of the subsidiary bank account and the credit total of the bank statement must be equal to the debit total of the subsidiary bank account. That is, the bank statement must be in agree with the cash in bank subsidiary account. This procedure is known as the **reconciliation of the bank statement**. If the bank statement shows different balances, adjustments will be made for items, not entered on the books of the company, but already entered by the bank.

Sometimes the bank statement shows different balances because of outstanding checks. In such cases there must be an explanation under the subsidiary bank account.

- Assume that 'X' Co. issued a check for 10.000.000 and gave it to the supplier.

The journal entry will be as follows;

Accounts Payable	10.000.000	
Cash in Bank		10.000.000

If the supplier didn't collect it as of December 31,19xx the bank statement would show different balances on that date.

331 ACCOUNTING FOR MARKETABLE SECURITIES

The term 'Marketable Securities' (Short - term investments) includes stocks, corporation bonds and government bonds which the firm plans to sell and utilize for daily operations in the next period. Cash is invested in stocks for the purpose of earning dividends and invested in bonds for the purpose of earning interest. Stocks, known as, marketable equity securities are dividend payable and bonds, known as, marketable debt securities are interest payable.

Marketable securities are recorded at cost. The original cost includes the purchase price, brokerage fees, taxes and all other expenditures incident to acquisition.

- Assume that on April 15, X corporation purchased 10.000 shares of Y corporation common stock at 300.000.000 TL. including the broker's commission and other expenditures. The following entry would be made by 'X' corporation.

April 15		
Marketable securities	300.000.000	
Cash		300.000.000

If 'X' corporation sold one-half of the 'Y' Corporation shares, on July 25, for 32.000 TL. per share, the gain would be recorded as follows:

July 25		
Cash	160.000.000	
Marketable Sec.		150.000.000
Gain on Sale of M.S.		10.000.000

If the 'Marketable Securities' account was credited in the amount of 160.000.000 TL. (selling price) the journal entry would be as follows:

July 25		
Cash	160.000.000	
Marketable Securities		160.000.000

At the end of the accounting period cost of the securities on hand must be determined and the gain on sale of securities should be computed and recorded in the following manner.

Cost of the securities on hand : 150.000.000
Cost of the securities sold : 300.000.000 – 150.000.000 = 150.000.000
Gain on sale of securities : 160.000.000 – 150.000.000 = 10.000.000

The adjusting entry will be as follows:

Dec.31		
Marketable Securities	10.000.000	
Gain on sale of M.S.		10.000.000

Revenue from Stocks

Investment in stocks earn revenue in the form of cash dividends and is recorded as received:

Cash		
Dividend revenue		

The investor also has a claim for dividends when they are declared by the issuing corporation. The entry to record the transaction is as follows:

MARMARA ÜNİVERSİTESİ YAYINEVİ

Dividends Receivable
Dividend Revenue

When dividends are collected in the form of cash, cash account will be debited and 'dividends receivable' account will be credited.

Cash
Dividends Receivable

Revenue from Bonds

Interest earned on investments should be recorded in the period earned, not when cash is received. At the end of the investor's accounting period any interest earned on investment in bonds should be recorded by an adjusting entry.

Assume that 'Y' Corporation issued a series of bonds on August 1, 1989, par value of totally 1.000.000 TL., 'X' Co. purchased them on the issuing date. At the end of the accounting period (December 31, 1989) interest earned must be recorded by an adjusting entry (interest rate 12 percent).

$$1.000.000 \times \frac{12}{100} \times \frac{5}{12} = 50.000$$

Dec.31

Accrued Interest Receivable	50.000	
Interest revenue		50.000

On August 1, 1990 collection of interest is recorded by the following journal entry.

August 1, 1990

Cash	120.000	
Accrued Interest Receivable		50.000
Interest Revenue		70.000

- Assume that 'Y' corporation issued a series of bonds on March 1, 1989 par value of totally 1.000.000 TL. If 'X' Co. purchased those bonds after the issuing date (September 1, 1989) the journal entry at the time of purchase will be as follows:

$$1.000.000 \times \frac{12}{100} \times \frac{6}{12} = 60.000$$

Sep. 1, 1989

Marketable debt Securities	1.000.000	
Accrued Interest Receivable	60.000	
Cash		1.060.000

Accrual of interest as of December 31 will be as follows:

$$1.000.000 \times \frac{12}{100} \times \frac{4}{12} = 40.000$$

Dec. 31, 1989

Accrued Interest Receivable	40.000	
Interest revenue		40.000

Collection of interest will be on March 1, 1990.

March 1, 1990

Cash	120.000	
Accrued interest Receivable		100.000
Interest Revenue		20.000

The Valuation of Stocks and Bonds

When bonds are counted and checked at the end of fiscal years, any amounts of interest that have accrued for that period must also be calculated. In addition, checking whether or not the income from stock and bond coupons has been collected on time and entered into the relevant accounts is another matter requiring careful attention in inventories.

According to VUK 279, "Turkish and foreign stocks and bonds shall be evaluated at their purchase price."

According to TTK 462 on the other hand, stocks and bonds are divided into two categories and are evaluated differently. Stocks and bonds that have no market - quoted price:

When the securities in this category are evaluated, consideration may be given at most to their average value during the most recent month. Putting it another way, this provision is contrary to the principle of lowest possible value in the valuation of assets —generally speaking, the cost value— and makes it possible for incerases in value to be entered into the books and, consequently, into the balance sheet.

Trading in stocks and bonds is entered into the accounts by using either a single "Stocks and bonds account" or else at least two separate accounts in order to track such transactions. When a single account is employed, purchases are debited at their purchase price and sales are credited at their sales price. When two separate accounts called "Stock and bond purchases" and "Stock and bond sales" accounts are used, the purchases account is debited and credited with the purchase prices.

At the end of a fiscal period, the balance of a single Stock and bonds account does not necessarily reflect its true end - of - term: an inventory is absolutely necessary in order to determine what is on hand and whether there has been a profit or a loss. Where separate accounts are maintained for purchases and sales on the other hand, the end-of-term Sales account balance shows the profit (or loss) while the Purchases account shows what there is.

332 ACCOUNTING FOR ACCOUNTS RECEIVABLE

"Accounts Receivable" represents amounts owed by customers of the business. These receivables arise from the sale of merchandise on credit. There are other types of receivables from miscellaneous sources such as, receivables from employees, advances to suppliers and receivables as a result of money - lending activities. Receivables are shown on the balance sheet at their recorded value. Accounts receivable due from credit customers are sometimes called trade receivables. Customers are usually given thirty, sixty or ninety days in which to pay their bills. However, some customers fail to pay their bills either because of financial difficulties or by reason of some catastrophic event befalling their business. The accounts owed by such customers are called "uncollectible accounts" or "doubtful accounts" or "bad debts". There are two alternative methods to account for bad debts.

- Write off method
- Allowance method

According to Turkish Tax Law, allowance method is used to account for doubtful debts and write off method is used to account for uncollectible debts.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Write off Method

Some of a firm's credit sales may result in accounts receivable which are ever collected. In this case, the accounts receivable at the end of the period and the et income for the period are incorrect. Writing off an account is necessary when a articular account is determined to be uncollectible so that the receivables are restated t their collectible amount.

Assume that 'X' Company has credit sales of 20.000.000 TL. during 1990; ollections during the year amounted to 15.000.000 TL. leaving an outstanding alance of 5.000.000 TL. in accounts receivable.

Accounts Receivable

X	X
20.000.000	15.000.000
Dr. B.	5.000.000

One of the customers 'Z' company that owes to the business is unable to pay ne bill (1.000.000). At the end of the accounting period, before financial statements re prepared the following adjusting entry should be made:

Dec. 31

Other expenses and losses	1.000.000	
Accounts Receivable 'Z' Co.		1.000.000

Allowance Method

Under the allowance method to account for doubtful debts, an asset offset ccount must be established (Allowance for doubtful debts). There are two ways of ournalizing doubtful debts, when allowance method is used. The first way involves emoving doubtful accounts from accounts receivable. The second way involves a rocedure without removing doubtful accounts from accounts receivable. The nfluence of these methods on the income statement is the same, but their influence n the balance sheet is different.

- Assume that 'X' Company made most of its sales on credit during its first ear of operations. At the end of the year the debit balance of the accounts receivable mounted to 80.000.000 TL. 9.000.000 TL. receivable from 'Y' company turned nto a doubtful debt. Below is shown the first way to journalize this transaction:

Doubtful Accounts	9.000.000	
Accounts Receivable		9.000.000

Other expenses and losses	9.000.000	
Allowance for doubtful accounts		9.000.000

'X' Co.
Balance Sheet
Dec. 31, 1990

Accounts Receivable	71.000.000	Allowance for D.A.	9.000.000
Doubtful Accounts	9.000.000		

The second way of journalizing this transaction may be as follows:

Other expenses and losses	9.000.000	
Allowance for doubtful accounts		9.000.000

'X' Co.
Balance Sheet
Dec. 31, 1990

Accounts Receivable	80.000.000	Allowance for D.A.	9.000.000

The bad debt expense (other expenses and losses) appears on the income statement and reduces the net income for the period by 9.000.000. The 'allowance for doubtful accounts' is a contra asset account and appears in the balance sheet as a deduction from the face value of accounts receivable and serves to reduce the accounts receivable to the amount that is expected to be collectible.

Recovery of Bad Debts Under Direct Write off Method

The write - off entry can be reversed and the cash collection can be recorded in the usual manner, if the collection is made in the same period as the write - off. If the collection is made in a different period, the credit in the reversal entry to bad debt expense (other expenses and losses) will have to go to a revenue account (other revenue and gains).

Continuing the above example for uncollectible debts assume that 1.000.000 credit loss was collected in the next period. The following journal entry should be made.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Cash	1.000.000	
Other revenue and gains		1.000.000

Recovery of Bad Debts Under Allowance Method

Continuing the above example for doubtful debts, assume that 9.000.000 TL. creit loss was collected in the next period.

If the first way of journalizing took place to record the doubtful debts, the recovery would be journalized as follows:

Cash	9.000.000	
Doubtful Accounts		9.000.000
Allowance for doubtful Accounts	9.000.000	
Other revenue and gains		9.000.000

On the other hand, the recovery would be journalized in the following way, if the second way of journalizing had been used to record doubtful debts.

Cash	9.000.000	
Accounts Receivable		9.000.000
Allowance for doubtful accounts	9.000.000	
Other revenue and gains		9.000.000

Returns and Allowances

Customers after receiving merchandise sold to them may be unhappy with the products for many reasons and return them. The supplier calls them "Sales returns"; the customer calls them 'purchase returns'. In such cases the revenue from sales of the merchandise for the selling company reduce.

Assume that 'X' company sold goods in the amount of 2.000.000 to 'Y' company, on account, 'Y' Company returned them, because they were not of the quality ordered.

MARMARA ÜNİVERSİTESİ YAYINEVİ

The journal entry of 'X' Company as a selling company will be:

Sales returns		2.000.000	
	Accounts Receivable "Y" Co.		2.000.000

The journal entry of 'Y' Company will be as follows:

Accounts Payable "X" Co.		2.000.000	
	Purchases returns		2.000.000

Sometimes the customer does not return the goods. He may request and receive an allowance on the price. In such cases the seller grants a sales allowance; the buyer receives a purchase allowance. The revenue from sales of merchandise for the selling company reduce.

Sales allowances	
	Accounts Receivable

Accounts Payable will be debited and Purchase Allowances will be credited on the books of the buyer

Accounts Payable	
	Purchases Allowances

In practice, the seller does not keep separate acconts for sales returns and allowances. A single account known as "Sales returns and allowances" is kept to record these two closely related transactions.In both cases the revenue from sales of merchandise for the selling company reduces.

Sales returns and allowances	
	Accounts Receivable

Following the same logic the buyer keeps a single account known as "Purchase returns and allowances" to record such transactions, because in both cases the cost of purchasing merchandise reduce.

MARMARA ÜNİVERSİTESİ YAYINEVİ

- Assume that on July 4, two weeks after 'Y' Company received goods from 'X' Company, it was discovered that some of the goods were not of the quality ordered. 'Y' company requested an allowance on the price and it was agreed that 80.000 TL. would be reduced from the amount owed to 'X' Co. 'Y' Co. issued a debit memorandum ('X' Co. might prepare a credit memorandum).

The journal entry of the buyer, 'Y' Co., to record the transaction will be as follows.

Accounts Payable		80.000	
	Purchases returns and allowances		80.000

Below is shown the journal entry of the seller, 'X' Co.,

Sales returns and allowances		80.000	
	Accounts Receivable		80.000

Discounts from Selling Prices

There are two types of sales discounts; trade discounts and cash discounts. Customers are allowed deductions from the list price of merchandise. In this case trade discounts take place and no entries are made for such discounts, because entries for sales are made at list price less trade discounts.

Assume that 'X' Company has a car for sale for 15.000.000 TL. list price and grants a discount of 1.500.000 TL. from list price.

List price	15.000.000
Trade discount	1.500.000
Sales price	– 13.500.000

'X' Company taking the sales price into consideration will make the following journal entry:

Accounts Receivable		13.500.000	
	Sales		13.500.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

The second type of sales discounts in known as 'Cash discounts' which are rewards for prompt payment. Cash discount terms are stated on the sales invoice in the following manner:

(2 / 10; n / 30)

This means that two percent discount will be allowed if the payment is made within ten days after the invoice date. The full gross price is due within thirty days.

Assume that merchandise having an invoice price of 1.000.000 TL. is sold on October 1, under the terms of 2 / 10; n / 30.

The seller (X. Co.) will make the following journal entry:

October 1

Accounts Receivable		1.000.000	
	Sales		1.000.000

If the invoice is paid within ten days the entry will be as follows:

October 9

Cash		980.000	
Sales discount		20.000	
	Accounts Receivable		1.000.000

If the invoice is paid after ten days the entry will be as follows:

October 30

Cash		1.000.000	
	Accounts Receivable		1.000.000

The buyer (Y. Co.) will make the following journal entry for the same transaction:

October 1

Purchases		1.000.000	
	Accounts Payable		1.000.000

If 'Y' Company paid the invoice within ten days, the journal entry will be as follows:

October 9

Accounts Payable		1.000.000	
	Cash		980.000
	Purchase discounts		20.000

If 'Y' company paid the invoice after ten days, the journal entry will be made in the following manner:

October 30

Accounts Payable		1.000.000	
	Cash		1.000.000

There are two ways of recording cash discounts; 'gross method' and 'net method'. The gross method has just been explained. The net method is not allowed by Turkish Tax Law.

The buyer 'Y' Company will journalize the above transactions in the following way under the 'net method'.

October 1

Purchases		980.000	
	Accounts Payable		980.000

If the invoice is paid within ten days, the following entry will be made:

October 30

Accounts Payable		980.000	
	Cash		980.000

If the invoice is paid after ten days, the transaction will be journalized in the following way:

October 30			
Accounts Payable		980.000	
Discount lost		20.000	
	Cash		1.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

333 ACCOUNTING FOR NOTES RECEIVABLE

"Notes Receivable" account represents amounts owed to a business as evidenced by a promissory note. A promissory note is a written promise to pay a stated amount of money at a stated time. This stated time is the maturity date. A promissory note is a legal document and gives the seller greater assurance of payment than a regular charge account. There are two parties in a promissory note; the maker and the payee. The maker is the person who has to make payment. The payee is the person to whom the money will be paid.

If X company receives a promissory note from its customer, 'Y' Co. the following journal entry will be made; by 'X' Co. as the payee;

Notes Receivable		
	Accounts Receivable	

If the note is collected at maturity the entry will be as follows;

Cash		
	Notes Receivable	

When the maker of the note ('Y' Co) cannot pay the note at maturity, the note is said to be dishonored. In the case of a dishonored note an entry should be made by the payee ('X' Co) to transfer the amount from the Notes Receivable account to the 'Accounts Receivable' account.

Accounts Receivable		
	Notes Receivable	

In some cases the holder of the paper ('X' co.) asks the notary public to send notice of protest to the maker. The holder of the paper engages the services of the notary public and pays his fee, which he charges to the maker. The maker is obligated to pay the face of the note and the protest fee.

The payee has a right to endorse a note receivable to the order of another person. The person who endorses the note is called the **endorser** and the person to whom the note is endorsed is called the **endorsee**. In this case the endorsee becomes the payee of the note. An endorsement is either **in full** or **in blank**. The endorser puts his name and his signature for endorsement in blank. The endorser should also mention the name of the endorsee on the note for endorsement in full.

Assume that 'X' company endorsed a note receivable to the order of 'Y' company to apply on account. The journal entry would be as follows:

Accounts Payable			
	Notes Receivable		

'X' Company assumes an obligation as an endorser. That is he must pay the paper to a subsequent holder if the maker fails to pay it at maturity. This kind of obligation is called a **contingent liability**.

Business firms deposit (**pledge**) their notes with a bank to obtain credit.

- Assume that notes receivable totally 4.000.000 TL. have been pledged to 'A' Bank. The bank transferred 3.500.000 TL. to the current account of 'X' Company. The journal entry would be as follows:

Pledged Notes Receivable		4.000.000	
	Notes Receivable		4.000.000
Cash in Bank		3.500.000	
	Bank Loan Payable		3.500.000

If 'X' company received a credit memorandum from 'A' bank that pledged notes receivable were collected at maturity, the following journal entry would be made;

Bank Loan Payable		3.500.000	
Cash in Bank		500.000	
	Pledged Notes Receivable		4.000.000

A note receivable may be endorsed to a bank for collection.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Notes Receivable in Collection		
	Notes Receivable	

If the bank collects the note at maturity and transfers to the current account, 'Cash in Bank' account will be debited and 'Notes Receivable in Collection' account will be credited.

Discounting Notes Receivable

If a company holds the notes receivable until maturity, the amount collected, will be the face amount of the note. The total amount due at the maturity date is known as the maturity value of the note.

Sometimes the holder or the payee of the note discounts it at a bank. The bank pays the maturity value less discount. The bank expects to collect the maturity value of the note on the maturity date. In fact if the maker fails to pay the note the endorser is contingently liable for the face amount of the note on the maturity date.

Suppose that 'X' Company holds a note receivable with the maturity value of 2.000.000 TL. 'X' Company decided to discount the note at 'A' bank rather than wait the remaining six months for the payment of 2.000.000 TL. on the maturity date. The bank charged a discount rate of 36 percent, (6 percent, monthly) and computed the immediate payment to 'X' company in the following way:

$$2.000.000 \times \frac{36}{100} = 720.000 \rightarrow \text{amount of discount to be charged}$$

$$2.000.000 - 720.000 = 1.280.000 \rightarrow \text{amount of payment to X company}$$

'X' company may journalize this transaction either by using "Discounted Notes Receivable" account or without using it. If 'Discounted Notes Receivable' account is used, the contingent liability of the endorser can be shown in the balance sheet.

Cash		1.280.000	
Interest expense		720.000	
	Discounted Notes Receivable		2.000.000

If 'Discounted Notes Receivable' account is not used the journal entry will be:

Cash		1.280.000	
Interests Expense		720.000	
	Notes Receivable		2.000.000

Drafts

A draft is a written order that requires the person or business firm adressed to pay a stated sum of money to another person or firm. There are three parties in a draft; the drawer is the person who has drawn the bill and to whom the money is owed; the drawee is the person on whom it is drawn and who has to make payment; the payee is the person to whom the money will be paid. Sometimes the drawer and the payee may be the same person or business firm.

When a draft is drawn, it should be submitted to the drawee to obtain his agreement to pay it at maturity. An accepted draft becomes the drawee's written agreement to pay a certain sum of money at a definite future date. Therefore a promissory note and an accepted draft are similar in nature.

- Assume that 'X' Company drew a draft on Y company, face value of 800.000 TL., payable 30 days after the date, to the order of 'Z' company. The draft was accpted by 'Y' company.

The journal entry of 'X' Company will be:

Accounts Payable Z Co.		800.000	
	Accounts Receivable Y Co.		800.000

The journal entry of 'Y' company will be;

Accounts Payable 'X' Co.		800.000	
	Notes Payable		800.000

The journal entry of 'Z' company will be;

Notes Receivable		800.000	
	Accounts Receivable 'X' Co.		800.000

Valuation of notes receivable

The fundamental criterion in notes receivable is their nominal value. The Tax Procedures Code however permits an alternative method of valuation to be made and defines what may be regarded as "present value": receivables backed by notes may be discounted to their present value on the date of valuation either at the rate of interest indicated on the note or else by means of the Central Bank's official discount rate. The act of reducing the nominal value of a note to its valuation - date value using a particular rate of discount is called "rediscounting". Banks, financiers, and insurance companies are obliged to calculate the valuation - date value of their receivables using either the Central Bank's official discount rate or else the rate of interest they employ in their transactions; other businesses are at liberty to do what they want in such cases.

The Tax Procedures Code also stipulates that receivables may be depreciated (in other words, that their value may be adjusted) according to their collectibilty. Receivables are divided into three categories depending on whether or not they are completely or partially uncollectible.

Bad debts

These are claims that no longer have any possibilty of being collected according to a judical decision or some other document that leads one to that conclusion.

Bad debts thus are claims that are lost: it is impossible to collect them and their value is zero. The law recognizes two situations in which a claim may lose its collectibility and become worthless:

A judicial authority must rule that the claim has no possibility of being collected. By this we should understand that legal recourse has been taken concerning the claim, that enforcement proceedings have been carried out, and that as a result of such petitions and prosecution, a judge has formally decided that the debt is not going to be paid.

Another way a claim may be considered worthless is on the basis of a document that convinces one that it is so. By this we should understand documents that indicate the occurrence of conditions and causes that render payment impossible. Documents that are "convincing" are certificates of discharge issued by a creditor; in the event of the debtor's death, statements of rejection of inheritance by his heirs; and documents declaring the disappearance of the debtor. Legal doctrine does not permit statements of insolvency to be accepted as documents attesting to the worthlessness of a claim.

Claims lose their present value on the date they become worthless. They are written off as losses at whatever value they have been recorded. In order for a bad debt

MARMARA ÜNİVERSİTESİ YAYINEVİ

to be written off as a loss or an expense, the claim must have arisen out of a commercial or agricultural relationship or activities.

Doubtful accounts

In some cases, the collectibility of a claim may —from the standpoint of a creditor— become questionable. It is not always possible to determine precisely that a claim has become worthless and in such a situation, it is accepted that the debt is "doubtful". The following accounts are considered to have become doubtful.

Accounts at the court or enforcement stage

In situations where a dispute has arisen on account of a relationship of debt between a creditor and a debtor and the claim has been taken to court, or where the creditor has initiated enforcement proceedings, or where he applies to the debtor for the sale of any surety that may have been posted, the claim is considered doubtful. Claims for which a statement of insolvency has been issued are also considered doubtful since such documents are not of an absolute nature. The fact that a claim is at the court or enforcement stage is sufficient for it to be considered doubtful.

These are claims that have gone unpaid by the debtor despite protests or several written demands for their payment but are too small to be worth undertaking legal action for.

Renounced receivables

Claims that are forgone, whether through a composition of debts or by means of a reconciliation, are worthless from the standpoint of the creditor. Claims that are forgone by a creditor are considered bad debts and for that reason like bad debts they lose their present value. They are thus written off as a loss at their book value and extinguished.

Comparison of bad debts, doubtful accounts, and renounced receivables

The common aspect of all three types of claims is that all three may be recorded as losses in the year in which they go bad, become doubtful, or are forgone.

The difference on the other hand is that because bad debts and forgone claims have lost all possibility of being collected, they are entered directly into the profit and loss account: they are erased from the books anda they do not appear in the

balance sheet. Doubtful accounts on the other hand, whose collection is merely doubtful, appear in the profit and loss account but they are also carried forward from one fiscal period to the next and appear in the balance sheet.

MARMARA ÜNİVERSİTESİ YAYINEVİ

334 ACCOUNTING FOR INVENTORY

Inventories are one of the largest assets for a merchandising business. Many firms employ the **periodic method** of accounting for inventory and cost of the goods sold. This method does not involve a day-to-day record of inventories or cost of the goods sold. When the ending inventories are determined, cost of the goods sold can be computed:

Beginning inventory	X
Net purchases	X
Goods available for sale	X
Ending inventory	(X)
Cost of goods sold	X

Net purchases is calculated by adding transportation on purchases to purchases of merchandise and deducting both purchase returns and allowances and purchase discounts. Under periodic inventory method separate accounts are usually kept for purchases; purchase returns and allowances and cash discounts on purchases.

Perpetual method of recording merchandise provides for a continuous balance of merchandise on hand and cost of the goods sold. Inventories and cost of the goods sold are recorded on a day-to-day basis. The Inventory account is debited for purchases and for transportation on purchases and is credited for cost of the goods sold. "Sales returns and allowances" represent reductions in the revenue received for merchandise sold and this account serves the same function in both the periodic and perpetual method.

Inventory Measurement

A business firm purchases a number of units of goods at varying prices and sells only some of them. The cost assigned to the units sold and the cost assigned to the units in the ending inventory are very important.When the ending inventory is reported at an amount less than its correct value, the net income for the period will be understated. When the ending inventory is reported at an amount in excess of its correct value, the net income for the period will be overstated..

There are various methods to measure cost of the goods sold and inventories. No matter which method is selected the inventory is stated at cost, because all

MARMARA ÜNİVERSİTESİ YAYINEVİ

methods of inventory valuation is stated at cost.

The most widely used methods of inventory valuation are:

- Specific identification method
- Average method
- First-in, first-out method (FIFO)
- Last-in, first-out method (LIFO)

Specific Identification Method

This is the most time consuming method of determining the cost of the goods sold and of ending inventory. This method is used when dealing with expensive materials which are unique such as diamonds. The choice of either the perpetual or periodic inventory system will not affect the method of measurement, because the cost of the goods sold and the ending inventory are computed by multiplying the units sold or on hand by the specific cost of each unit sold or still on hand.

CGS = Units sold x specific cost of each unit sold

Ending Inventory = Units on hand x specific cost of each unit on hand.

To understand the application of the remaining methods; assume the following data for the month of January relating to item 'A' in the inventory of 'X' Company:

Date	Explanation	Units		Price	Amount
January 1	Begining Inventory	100	x	120	12.000.-
8	Sales	50	x	150	7.500.-
14	Purchases	80	x	126	10.080.-
16	Purchases	120	x	118	14.160.-
20	Sales	110	x	150	16.500.-
25	Sales	80	x	150	12.000.-
30	Purchases	70	x	122	8.540.-

Units purchased =	370
Units sold =	- 240
Units on hand =	130

MARMARA ÜNİVERSİTESİ YAYINEVİ

Average Method

There are two ways of computing average cost:

- Simple Average
- Weighted Average

Simple Average Method

Under the **simple average** method the various purchase prices are added together and their sum is divided by the total number of purchases to arrive at the average cost per unit.

Date	Cost per unit
January 1	120
14	126
16	118
30	122
	486

486 ÷ 4 = $ 121.50

Ending inventory : 130 x 121.50 = 15.795
CGS : 240 x 121.50 = 29.160

Under the perpetual inventory system the computation of simple average price must be performed after each purchase. Many averages may be used in a period. This method is known as '**simple moving average**'.

Inventory Card (Simple Moving Average)

'A' Goods

Date	Explanation	Price	QUANTITY			TOTAL		
			Purchased	Sold	Balance	Purchased	Sold	Balance
January 1	Beginning Inventory	120	100	–	100	12.000	–	12.000
8	Sales		–	50	50		6.000 (50 x 120)	6.000
14	Purchases	126	80	–	130	10.080	–	16.080
16	Purchases	118	120	–	250	14.160	–	30.240
20	Sales		–	110	140	–	13.346.3 (110X121.33)	16.893.7
25	Sales		–	80	60	–	9.706.4 (80 x 121.33)	7.187.3
30	Purchases	122	70	–	130	8540	–	15.727.3
						44.780	29.052.7	

MARMARA ÜNİVERSİTESİ YAYINEVİ

Weighted Average Method

A weighted average is obtained by multiplying each purchase price by the quantity of units in each purchase and dividing the sum of the results by the total number of units available for sale.

Inventory Card (Weighted average)

'A' Goods

Date		Explanation	Price	QUANTITY			TOTAL		
				Purchased	Sold	Balance	Purchased	Sold	Balance
January	1	Beginning Inventory	120	100	–	100	12.000		
	8	Sales		–	50	50			
	14	Purchases	126	80	–	130	10.080		
	16	Purchases	118	120	–	250	14.160		
	20	Sales		–	110	140	–		
	25	Sales		–	80	60	–		
	30	Purchases	122	70	–	130	8540		
				370	240		44.780		

44.780 ÷ 370 = 121.027

Ending inventory = 130 x 121.027 = $ 15733,51

CGS = 44.780 – 15733,51 = $ 29046,49

Under the perpetual inventory system, the weighted average must be recomputed after each purchase instead of at the end of the period as with the periodic inventory system. The weighted average is computed after each purchase by dividing the total cost of goods on hand by the total number of units on hand. This technique is known as **'weighted moving average cost'**.

Inventory Card (Weighted Moving Average)

'A' Goods

Date		Explanation	Price	QUANTITY			TOTAL		
				Purchased	Sold	Balance	Purchased	Sold	Balance
January	1	Beginning Inventory	120	100	–	100	12.000	–	12.000
	8	Sales		–	50	50	–	6.000 (120 x 50)	6.000
	14	Purchases	126	80	–	130	10.080	–	16.080
	16	Purchases	118	120	–	250	14.160	–	30.240
	20	Sales		–	110	140	–	13.305,60 (120,96x110)	16.934,40
	25	Sales		–	80	60	–	9.676,80 (120,96 x 80)	7.257,60
	30	Purchases	122	70	–	130	8540	–	15.797,60
				370			44.780	28.982,40	

Ending inventory : 15.797,60

CGS : 28.982,40

MARMARA ÜNİVERSİTESİ YAYINEVİ

First-in First-Out Method (FIFO)

The FIFO method of inventory costing is based on the assumption that the first goods purchased are the first to be sold. So the ending inventory would consist of goods received last and prices would therefore reflect the current costs. Since the cost of the goods sold is computed from the earliest goods purchased and the ending inventory consists of the most recent purchases, these two amounts will be identical both in periodic and perpetual inventory systems.

Inventory Card (FIFO)

'A' Goods

Date	Explanation	Price	QUANTITY Purchased	QUANTITY Sold	QUANTITY Balance	TOTAL Purchased	TOTAL Sold	TOTAL Balance
January 1	Beginning Inventory	120	100	–	100	12.000	–	12.000 (100x120)
8	Sales			50	50	–	6.000 (50 x 120)	6.000 (50 x 120)
14	Purchases	126	80	–	130	10.080	–	16.080 (50 x 120) (80 x 126)
16	Purchases	118	120	–	250	14.160	–	30.240 (50 x 120) (80 x 126) (120 x 118)
20	Sales		–	110	140	–	13.560 (50 x 120) (60 x 126)	16.680 (20 x 126) (120 x 118)
25	Sales		–	80	60	–	9.600 (20 x 126) (60 x 118)	7.080 (60 x 118)
30	Purchases	122	70	–	130	8540	–	15.620 (60 x 118) (70 x 122)
			370	240		44.780	29.160	

The LIFO method of inventory pricing assumes that the goods received last are the first to be sold. The ending inventory reflects the prices of the earliest goods received. The cost of goods sold is computed by taking the last purchase first and working backward. The ending inventory is computed by starting from the beginning inventory or earliest purchase and working forward.

The cost of goods sold and the ending inventory may differ under the periodic and perpetual inventory systems. The difference results from the cost to be assigned at the date that goods are sold. Under the perpetual inventory system, a cost must be

assigned to each unit sold on the date of sale; whereas under the periodic inventory system, the cost is assigned at the end of the period. Below is shown the LIFO method of inventory pricing under perpetual inventory system:

MARMARA ÜNİVERSİTESİ YAYINEVİ

Inventory Card (LIFO)

'A' Goods

Date	Explanation	Price	QUANTITY Purchased	Sold	Balance	TOTAL Purchased	Sold	Balance
January 1	Beginning Inventory	120	100	–	100	12.000	–	12.000 (100x120)
8	Sales			50	50	–	6.000 (50 x 120)	6.000 (50 x 120)
14	Purchases	126	80	–	130	10.080	–	16.080 (50 x 120) (80 x 126)
16	Purchases	118	120	–	250	14.160	–	30.240 (50 x 120) (80 x 126) (120 x 118)
20	Sales			110	140	–	12.980 (110 x 118)	17.260 (50 x 120) (80 x 126) (10 x 118)
25	Sales			80	60		10.000 (10 x 118) (70 x 126)	7.260 (50 x 120) (10 x 126)
30	Purchases	122	70		130	8.540	–	15.800 (50 x 120) (10 x 126) (70 x 122)
			370	240		44.780	28.980	

Ending inventory : 15.800

CGS : 28.980

Under the periodic inventory system, the ending inventory and the cost of the goods sold may be computed as follows:

Ending inventory : 130 units

100 units x $ 120 = 12.000

30 units x $ 126 = 3.780

15.780

CGS : 44.780 – 15.780 = 29.000

Lower of Cost or Market (LCM)

The inventory is stated at cost. If there are obsolete and damaged goods in the inventory, "lower-of-cost-or-market" rule will be applied. According to this rule the ending inventory must be assigned either the historical cost (cost that the company paid and recorded on the books) or the current market value whichever is lower. If the market value is greater then historical cost no adjustment is necessary. If the market value is lower than cost, an adjustment will be necessary to reduce the ending inventory. The LCM rule can only be applied to damaged items in the inventory.

There are two ways of recording obsolete and damaged goods

- Direct write off
- Allowance Method
- Assume that a physical inventory of 10 units exists at the end of an accounting period. 3 units are damaged. The original acquisition cost assigned to each unit is 200.000 TL. Market value of each damaged item is determined as 120.000 TL. The effects of using LCM rule for defective goods under **direct write off method** will be as follows:

Damaged Goods		600.000	
	Inventory		600.000
Other losses and expenses		240.000	
	Damaged goods		240.000

If 'damaged goods' account is not used the following journal entry will be made;

Other losses and expenses		240.000	
	Inventory		240.000

If allowance method is used the journal entries will be as follows:

Damaged goods		600.000	
	Inventory		600.000
Other losses and expenses		240.000	
	Allowance for Damaged goods		240.000

If 'damaged goods' account is not used the following journal entry will be made:

Other losses and expenses	240.000	
Allowance for Damaged goods		240.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Sale of Damaged Goods

The accounting records must reflect the sale of damaged goods.

Assume that the debit total of 'damaged goods' account is 1.000.000 TL. and the credit total of the 'allowance for damaged goods' account is 400.000 TL. If the damaged goods are sold for 600.000 TL. there will be no gain or loss on sale of them. The following entry will be made

Cash	600.000	
Allowance for D.G.	400.000	
Damaged goods		1.000.000

If the damaged goods are sold for 800.000 TL., there will be a gain on sale of them:

Cash	400.000	
Allowance for D.G.	800.000	
Damaged goods		1.000.000
Other revenue and gains		200.000

If the damaged goods are sold for 500.000 TL. there will be a loss on sale of them

Cash	500.000	
Allowance for D.G.	400.000	
Other expenses and losses	100.000	
Damaged goods		1.000.000

Problem 11

George Smith Co. organized on December 1, 1989 as an individual proprietorship. Transactions occured during December are given below:

December 1 - The owner invested 6.000.000 TL capital in cash.
2 - Paid 50.000 TL. for miscellaneous expenses
3 - An office building value of 4.000.000 TL purchased on account from Supply Co.
4 - Purchased a car for 1.000.000 TL from VY co. to deliver the merchandise. Issued a promissory note to settle the debt.
5 - A store room leased and paid 200.000 TL lease for December.
11 - Paid advertising expense for 70.000 TL in cash.
12 - Purchased 100 units merchandise at 80.000 TL each from Van Co. on account
14 - Ordered some merchandise for 2.460.000 TL to ABC Co. and paid in cash.
16 - Sold 50 units merchandise at 100.000 TL each to Nat Co. on account
18 - Purchased 40 units at 84.000 TL. each from TT Co. on account.
19 - Sold 10 units merchandise at 110.000 TL in cash.
20 - The owner G.Smith, withdrew 100.000 TL in cash.
23 - Collected 1.500.000 TL from Nat Co. in cash.
25 - Purchased 50 units merchandise at 86.000 TL each from DC Co. in cash.
26 - Sold 60 units at 105.000 TL each in cash.
27 - Paid 800.000 TL to Supply Co. in cash.
27 - Paid advertising expense for 60.000 TL. in cash
28 - The merchandise ordered on December 14, collected as 30 units at 82.000 TL each.
29 - The owner, withdrew 100.000 TL in cash.
29 - Paid 60.000 TL for miscellaneous expense
30 - Sold 20 units at 100.000 TL each to PDK Co. on account.

Inventory

- According to the physical count the units of merchandise on hand are 79 as of December 31. 10 units of this quantity damaged in December. The market value of damaged unit is 55.000 TL. each.

- Building subject to % 3 depreciation.

- Car subject to % 15 depreciation.

- 40.000 TL. of miscellaneous expense belongs to the next year.

Required

- Journalize the transactions
- Post
- Prepare the balance sheet as of December 31, 1989
- Prepare the income statement for 1989

Use "PERIODIC INVENTORY Method for merchandise operations. Use "First-in First - out" Method of inventory costing.

Solution to Problem 11

1	December 1			
	Cash		6.000.000	
		Capital		6.000.000
2	2			
	Miscellaneous expense		50.000	
		Cash		50.000
3	3			
	Building		4.000.000	
		Accounts Payable		4.000.000
4	4			
	Cars		1.000.000	
		Notes Payable		1.000.000
5	5			
	Rent expense		200.000	
		Cash		200.000
6	11			
	Advertising expense		70.000	
		Cash		70.000
7	12			
	Purchases		8.000.000	
		Accounts Payable		8.000.000
8	14			
	Advances to Suppliers		2.460.000	
		Cash		2.460.000
9	16			
	Accounts Receivable		5.000.000	
		Sales		5.000.000
10	18			
	Purchases		3.360.000	
		Accounts Payable		3.360.000

11	19			
		Cash		
		Sales	1.100.000	1.100.000
12	20			
		Drawing Account	100.000	
		Cash		100.000
13	23			
		Cash	1.500.000	
		Accounts Receivable		1.500.000
14	25			
		Purchases	4.300.000	
		Cash		4.300.000
15	26			
		Cash	6.300.000	
		Sales		6.300.000
16	27			
		Accounts Payable	800.000	
		Cash		800.000
17	27			
		Advertising expense	60.000	
		Cash		60.000
18	28			
		Purchases	2.460.000	
		Advances to Suppliers		2.460.000
19	29			
		Drawing Account	100.000	
		Cash		100.000
20	29			
		Miscellaneous expense	60.000	
		Cash		60.000
21	30			
		Accounts Receivable	2.000.000	
		Sales		2.000.000
22	31			
		Inventory	18.120.000	
		Purchases		18.120.000
23	31			
		CGS	11.360.000	
		Inventory		11.360.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

24	31			
	Other losses and Expenses			
		Inventory	86.000	
				86.000
25	31			
	Depreciation expense			
		Accumulated Depreciation	270.000	
				270.000
26	31			
	Prepaid expense			
		Miscellaneous Expense	40.000	
				40.000
27	31			
	Defective goods			
		Inventory	860.000	
				860.000
28	31			
	Other losses and expenses		310.000	
		Defective goods		310.000
29	31			
	Revenue and Expense		12.426.000	
		Miscellanous expense		70.000
		Rent expense		200.000
		Advertising expense		130.000
		CGS		11.360.000
		Depreciation expense		270.000
		Other losses and expenses		396.000
30	31			
	Sales		14.400.000	
		Revenue and Expense		14.400.000
31	31			
	Revenue and expense		1.974.000	
		Drawing Account		1.974.000
32	31			
	Capital		6.000.000	
	Drawing Account		1.774.000	
	Accumulated Depreciation		270.000	
	Notes Payable		1.000.000	
	Accounts Payable		14.560.000	
		Defective goods		550.000
		Inventory		5.814.000
		Accounts Receivable		5.500.000
		Prepaid expense		40.000
		Car		1.000.000
		Building		4.000.000
		Cash		6.700.000

Cash

6.000.000	50.000
1.100.000	200.000
1.500.000	70.000
6.300.000	2.460.000
	100.000
	4.300.000
	800.000
	60.000
	100.000
	60.000
14.900.000	8.200.000
	6.700.000
14.900.000	14.900.000

Misc. Expense

50.000	40.000
60.000	
110.000	40.000
	70.000
110.000	110.000

Building

4.000.000	4.000.000

Car

1.000.000	1.000.000

Capital

6.000.000	6.000.000

Notes Payable

1.000.000	1.000.000

Accounts Payable

800.000	4.000.000
	8.000.000
	3.360.000
800.000	15.360.000
14.560.000	
15.360.000	15.360.000

Rent expenses

200.000	200.000

Advertising Expense

70.000	
60.000	
130.000	130.000

Accounts Receivable

5.000.000	1.500.000
2.000.000	
7.000.000	1.500.000
	5.500.000
7.000.000	7.000.000

Prepaid Expense

40.000	40.000

Advances to Suppliers

2.460.000	2.460.000

Drawing Account

100.000	1.974.000
100.000	
200.000	1.974.000
1.774.000	
1.974.000	1.974.000

Depreciation Expense

270.000	270.000

Accumulated Depreciation	
270.000	270.000

Purchases	
8.000.000	
3.360.000	
4.300.000	
2.460.000	
18.120.000	18.120.000

Inventory	
18.120.000	11.360.000
	86.000
	860.000
18.120.000	12.306.000
	5.814.000
18.120.000	18.120.000

CGS	
11.360.000	11.360.000

Defective Goods	
860.000	310.000
	550.000
860.000	860.000

Other Losses and Expenses	
310.000	
86.000	
396.000	396.000

Sales	
	5.000.000
	1.100.000
	6.300.000
	2.000.000
14.400.000	14.400.000

Revenue and Expense	
12.426.000	14.400.000
1.974.000	
14.400.000	14.400.000

MARMARA ÜNİVERSİTESİ YAYINEVİ
MARMARA ÜNİVERSİTESİ

INVENTORY CARD (FIFO)

Date - 1989	Explanation	Unit Price	QUANTITIES			DOLLAR AMOUNTS		
			Purchased	Sold	Balance	Purchased	Sold	Balance
Dec. 12	Purchase	80.000	100	–	100	8.000.000 (80.000x100)	–	8.000.000 (80.000x100)
16	Sale	–	–	50	50	–	4.000.000 (80.000x50)	4.000.000 (80.000x50)
18	Purchase	84.000	40	–	90	3.360.000 (84.000x40)	–	7.360.000 (80.000x50) (84.000x40)
19	Sale	–	–	10	80	–	800.000 (80.000x10)	6.560.000 (80.000x40) (84.000x40)
25	Purchase	86.000	50	–	130	4.300.000 (86.000x50)	–	10.860.000 (80.000x40) (84.000x40) (86.000x50)
26	Sale	–	–	60	70	–	4.880.000 (80.000x40) (84.000x20)	5.980.000 (84.000x20) (86.000x50)
28	Purchase	82.000	30	–	100	2.460.000 (82.000x30)	–	8.440.000 (84.000x20) (86.000x50) (82.000x30)
30	Sale	–	–	20	80	–	1.680.000 (84.000x20)	6.760.000 (86.000x50) (82.000x30)
31	Lost	–	–	1	79	–	86.000 (86.000x1)	6.674.000 (86.000x49) (82.000x30)
31	Damaged	–	–	10	69	–	86.000 (86.000x10)	5.814.000 (86.000x39) (82.000x30)

George Smith Co.
Balance Sheet
Dec. 31, 1989

MARMARA ÜNİVERSİTESİ YAYINEVİ

Cash	6.700.000	Capital	6.000.000
Prepaid expense	40.000	Drawing Account	1.774.000
Accounts Receivable	5.500.000	Accumulated Depreciation	270.000
Inventory	5.814.000	Notes Payable	1.000.000
Defective Goods	550.000	Accounts Payable	14.560.000
Car	1.000.000		
Building	4.000.000		
	23.604.000		23.604.000

George Smith Co.
Income Statement
For the Year Ending December 31, 1989

Sales		14.400.000
CGS		(11.360.000)
Beginning inventory	–	
Purchases	18.120.000	
Goods available for sale	18.120.000	
Ending inventory	6.760.000	
CGS	11.360.000	
Gross profit on sales		3.040.000
Other expenses		(1.066.000)
Miscellaneous expense	70.000	
Rent expense	200.000	
Advertising expense	130.000	
Depreciation expense	270.000	
Other losses and expenses	396.000	
	1.066.000	
Net Income		1.974.000

335 ACCOUNTING FOR LONG - LIVED ASSETS

Long - lived assets or fixed assets include both **tangible** and **intangible** property. They have a useful life of more than one year and are acquired for use in the operation of the business. **Tangible** assets have physical substance and are divided into the following categories:

- Plant, buildings, equipment, furniture and fixtures, land (Plant assets)
- Natural resources

Plant assets are subject to depreciation (but not land) **Depreciation** is the term used in accounting to describe the periodic transfer of acquistion cost to expense for fixed assets such as buildings, machinery, equipment, furniture and fixtures (22). Land is not subject to depreciation because it has an unlimited life. The other types of plant assets do not last forever. Physical deterioration resulting from wear and tear due to operating use and economic factors such as obsolescence and inadequancy, cause decreases in asset service life. **Natural resources** are purchased for the substances that can be taken from them. Among the natural resoruces are ore from mines, the oil and gas from oil and gas fields and lumber from the forest. Natural resources are subject to depletion rather than to depreciation (23). The term **depletion** describes the exhaustion of a natural resource through mining, cutting, pumping or otherwise using up the resource and the way in which the cost is allocated.

Intangible assets do not have physical substance. Most intangible assets such as patents, copyrights, organization costs, franchises have limited legal and useful lives. **Amortization** is the name given to the cost allocation process applied to intangibles.

Accounting for Depreciation

Whether the usefulness of a plant asset is terminated by physical deterioration or by obsolescence, it is the objective of depreciation accounting to spread the cost of the asset over the years of its usefulness in a systematic and sensible manner (24). Therefore depreciation is a process of cost allocation. It is not a process of valuation. Also, depreciation is not a process of generating funds to replace a particular asset. By matching depreciation expense against revenues, we attempt to recover the original monetary investments in noncurrent assets made in the past (25).

---

(22) Brock R. Horace, Palmer E. Charles, Accounting Principles and Applications; Complete, 1981, p. 432.

(23) Needles, E. Belverd, Financial Accounting, 1983, p. 388.

(24) Johnson L. Glenn, Gentry A. James, Finney and Miller's, Principles of Accounting, Introductory, 1982, p. 287.

(25) Spiller A. Earl, Financial Accounting, 1971, p. 273.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Recording Depreciation

At the end of each accounting period the current depreciation is debited to an appropriate expense account (depreciation expense) and credited to either an accumulated depreciation account or a fixed asset account.

Assume that a business has plant buildings that cost 10.000.000 TL. and an annual depreciation charge of 500.000 TL. is to be recorded for these buildings. Depreciation expense for the period may be recorded by decreasing the fixed asset as shown below:

Depreciation Expense		500.000	
	Building		500.000

Accountants do not prefer to charge the depreciation expense in this way, because the balance sheet does not show the acquisition cost of the fixed asset.

If the depreciation expense for the period is recorded by using the 'accumulated depreciation' account, the acquisition cost of the fixed asset and its accumulated depreciation will be shown in the balance sheet. The journal entry for the annual depreciation will be as follows:

Depreciation expense		500.000	
	Accumulated depreciation		500.000

'Accumulated depreciation' account lasts throughout the life of the asset. 'Depreciation expense' is shown in the income statement. 'Accumulated depreciation' is shown in the balance sheet.

Balance Sheet

Building	10.000.000	Accumulated Depreciation	500.000

The balance sheet might record 'Accumulated Depreciation' and 'Building' as follows:

Balance Sheet

Building	10.000.000
Accumulated Depreciation	500.000
	9.500.000

The undepreciated cost, known as **book value or carrying value** of a fixed asset may be determined by subtraction of the accumulated depreciation account from the original cost recorded in the "fixed asset" account 9.500.000 is the book value of the building.

Methods of Computing Depreciation

There are numerous methods of computing depreciation. The most common methods are:

- the straight - line method
- accelerated methods

Accelerated methods are divided into the following categories;

- Sum - of - the - years' digits method
- Declining - balance method
- Double - declining - balance method

Straight line method or double - declining balance method may be used in Turkey. A business firm cannot change its method for computing depreciation, if it has selected straight - line method. If a business firm uses double - declining - balance method for computing depreciation, it may change its method and begin to use straight - line method.

Straight - Line Method

Under the straight - line method, depreciation is computed by dividing cost of the fixed asset by its estimated useful life.

$$\text{Depreciation expense} = \frac{\text{Cost of fixed asset}}{\text{Estimated useful life}}$$

The estimated useful life is the total number of service years expected from the asset.

- Assume that the estimated useful life of a plant asset is five years. Then the depreciation rate will be 20 percent. This is expressed by the following formula.

$$\text{Depreciation rate} = \frac{1}{\text{Estimated useful life}} = \frac{1}{5} = 0{,}20$$

If the residual value of the fixed asset is taken into consideration, it will be subtracted from the cost of the fixed asset to arrive at the depreciable value. The residual value of an asset is its estimated net scrap, (salvage) value as of the estimated date of disposal. The residual value is often ignored while computing depreciation and the computation of depreciation is based on total cost of the fixed asset.

Depreciation expense = depreciation rate x cost of the fixed asset

Straight - line method produces the same yearly depreciation amounts.

Suppose that the acquisition cost of a fixed asset is 1.000.000 TL. and the estimated useful life is assumed to be 5 years.

$$\text{Depreciation rate} = \frac{1}{5} = 0{,}20$$

Depreciation expense = 0.20 x 1.000.000 = 200.000 TL.

Each accounting period will receive the same depreciation charge for asset services consumed (200.000)

31/12

Depreciation expense		200.000	
	Accumulated depreciation		200.000

The depreciation for the five years would be as follows:

	Cost	Yearly Depreciation	Accumulated Depreciation	Carrying Valve
Date of purchase	1.000.000	–	–	1.000.000
End of first year	1.000.000	200.000	200.000	800.000
End of second year	1.000.000	200.000	400.000	600.000
End of third year	1.000.000	200.000	600.000	400.000
End of fouth year	1.000.000	200.000	800.000	200.000
End of fifth year	1.000.000	200.000	1.000.000	–

At the end of the fifth year, accumulated depreciation reaches the cost value of the fixed asset. If the related fixed asset is no longer used in the business the cost and the accumulated depreciation of the fixed asset should be **written off** by the following journal entry:

Accumulated Depreciation		1.000.000	
	Fixed Asset		1.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

If the asset is still used in the business, this fact should be supported by its cost and accumulated depreciation remaining in the ledger accounts.

Accumulated Depreciation		999.999	
	Fixed Assets		999.999

After the entry is posted, the balances of the accounts in the ledger will be as follows:

Fixed Asset		Accumulated Depreciation	
1.000.000	999.999	999.999	1.000.000
Dr. B. 1.-		Cr. B. 1.-	

1.- is the **trace value** of the fixed asset. The balances of 'Fixed Asset' Account and 'Accumulated Depreciation' Account will be transferred to the balance sheet to show that the fixed asset is still available for use.

Accelerated Methods

Any pattern of depreciation that systematically writes off depreciable costs so that progressively smaller amounts are allocated each year is called accelerated depreciation (26). These methods result in a higher depreciation charges during the early years of a plant asset's life.

Sum-of-the-Years'-Digits Method

Under this method, the years in the service life of an asset are added and their sum becomes the denominator of a series of fractions. The numerator of the fractions are the individual years in the estimated useful life of the asset in their reverse order.

Assume that the estimated useful life of the fixed asset is five years, and the acquisition cost of the asset is 100.000.-

(26) Horngren T. Charles, Introduction to Financial Accounting, 1981, p. 357.

$1 + 2 + 3 + 4 + 5 = 15$

15 is the denominator of the fractions.

MARMARA ÜNİVERSİTESİ YAYINEVİ

	Cost	Yearly Depreciation	Accumulated Depreciation
End of first year	100.000	(5 / 15x100.000) 33.333	33.333
End of second year	100.000	(4 / 15x100.000) 26.666	59.999
End of third year	100.000	(3 / 15x100.000) 19.999	79.998
End of fourth year	100.000	(2 / 15x100.000) 13.333	93.331
End of fifth year	100.000	(1 / 15x100.000) 6.669	100.000

It should be noted that the annual depreciation is determined by multiplying each fraction by the cost of the fixed asset. Depreciation is greatest in the first year and declines each year.

Declining - Balance Method

Under the declining balance method, the constant depreciation rate is applied to the carrying value of the fixed asset. This method results in higher depreciation charges during the early years of a fixed assets's life, because the depreciation rate is applied to a decreasing base at the end of each accounting period.

Assume that the acquisition cost of a fixed asset is 100.000.000 TL. and the depreciation rate is 20 percent. The depreciation for the five years will be as follows:

	Cost	Yearly Depreciation	Accumulated Depreciation	Carrying Value
Date of purchase	100.000.000	-	-	100.000.000
End of first year	100.000.000	20.000.000	20.000.000	80.000.000
End of second year	100.000.000	16.000.000	36.000.000	64.000.000
End of third year	100.000.000	12.800.000	48.800.000	51.200.000
End of fouth year	100.000.000	10.240.000	59.040.000	40.960.000
End of fifth year	100.000.000	40.960.000	100.000.000	-

Under this method depreciation in the last year should be the amount either necessary to write off the asset or the amount to reduce the asset to its trace value.

Double - declining - balance Method

Under this method the depreciation base is the carrying value of the fixed asset (Cost less accumulated depreciation). A constant rate is applied at the end of each accounting period. The constant rate is determined by doubling the straight - line rate, but it can not exceed 50 percent according to Turkish Tax Law. If the straight - line rate is 20 percent, double - declining - balance will use a rate of 40 percent for the fixed asset. (Taxpayers are allowed to set aside a depreciation fund of 25 %)

- Assume that the acquisition cost of the fixed asset is 100.000.000 TL. and the straight - line rate is 20 percent. The depreciation for five years under the double - declining - balance method will be as follows:

	Cost	Yearly Depreciation	Accumulated Depreciation	Carrying Valve
Date of purchase	100.000.000	–	–	100.000.000
End of first year	100.000.000	40.000.000	40.000.000	60.000.000
End of second year	100.000.000	24.000.000	64.000.000	36.000.000
End of third year	100.000.000	14.400.000	78.400.000	21.600.000
End of fourth year	100.000.000	8.640.000	87.040.000	12.960.000
End of fifth year	100.000.000	12.960.000	100.000.000	

A firm may switch from double - declining - balance method to the straight - line procedure. In this case the undepreciated cost should be divided by the remaining estimated useful life of the fixed asset to arrive at the annual depreciation charge.

Assume that the acquisition cost of the fixed asset is 100.000.000 TL. and the estimated useful life is 5 years (depreciation rate: 0,20). The firm applied double - declining - balance method (depreciation rate: 0,40) for two years. After two years the managers decided to change the method. Straightline method is used for the remaining three years. At the end of the second accounting period the accumulated depreciation is 64.000.000 TL. The undepreciated cost of the fixed asset is 36.000.000 (100.000.000 – 64.000.000). 36.000.000 should be divided by '3' which is the remaining useful life of the fixed asset, to arrive at the annual depreciation charge (36.000.000 ÷ 3 = 12.000.000). Each accounting period will receive the same depreciation charge, 12.000.000 TL., for the remaining three years.

Depreciation expense		12.000.000	
	Accumulated Depreciation		12.000.000

At the end of the fifth year, accumulated depreciation will reach the cost value of the fixed asset

(64.000.000 + 12.000.000 + 12.000.000 + 12.000.000 = 100.000.000).

MARMARA ÜNİVERSİTESİ YAYINEVİ

Disposal of Fixed Assets

Fixed assets that are no longer useful to a business are usually disposed of. They may be sold or traded in on the purchase of new equipment. At the time of sale or trade - in, it is necessary to remove the cost of the fixed asset and the accumulated depreciation from the accounts.

Assume that the 'Building' account has a debit balance of 45.000.000 TL. representing the acquisition cost. The accumulated depreciation account of building has a credit balance of 15.000.000 TL. If the building is sold in cash at book value, there will be no gain or loss to be recorded. All these details can be handled in one compound entry as shown below;

Accumulated Depreciation	15.000.000	
Cash	30.000.000	
Building		45.000.000

The following journal entries may be made for the same transaction. The first journal entry will remove the cost of the fixed asset and the accumulated depreciation from the accounts:

Accumulated Depreciation	15.000.000	
Building		15.000.000
Cash	30.000.000	
Building		30.000.000

If the agreed selling price is 32.000.000 TL. which is 2.000.000 TL. above the book value, there will be gain on sale of building.

Accumulated Depreciation	15.000.000	
Cash	32.000.000	
Building		45.000.000
Other revenue and gains		2.000.000

Assume that the selling price is 27.000.000 TL. Compared with the book value of 30.000.000 TL., this price represents a loss of 3.000.000 TL.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Cash	27.000.000	
Accumulated Depreciation	15.000.000	
Other expenses and losses	3.000.000	
Building		45.000.000

Businesses often **trade in** existing equipment when they purchase new equipment. If there is an exchange of similar productive assets, the acquired asset is recorded at an amount equal to the book value of the asset exchanged plus cash paid in the exchange.

Assume that the firm exchanges one of its trucks for newer, more modern truck on the following terms:

Cost of old truck	5.000.000
Accumulated depreciation of old truck	3.000.000
Cash payment required	7.000.000
Price of new truck	9.000.000

The following compound entry should be made;

Trucks	9.000.000	
Accumulated Depreciation	3.000.000	
Trucks		5.000.000
Cash		7.000.000

Renewal fund

Under certain specific conditions, the profits that are secured from the sale of fixed assets are not taxed and may be used in order to cover the cost of their renewal. Should the conditions be met, the profits secured may be tracked as a "Renewal fund" account on the liabilitiy side. In order for a renewal fund to be set aside, the renewal of the asset sold must be necessary from the standpoint of the nature of the business. A decision to this effect must have been made by the business's management and they must have already made the renewal attempt.

The following is an explanation of the prerequisites for and the procedures involved in setting aside a renewal fund.

The profit received from a sale or as insurance compensation must be set aside for the acquisition of a noncurrent asset of the same type: it should be stipulated that the asset sold or lost is to be replaced using the profits put in the renewal fund.

- In order to set aside a renewal fund, the business must keep its books on a balance - sheet basis.

- The profits put into the renewal fund must be used within three years. Any unused profits remaining in any way whatsover will be added to the basis for one's tax assessment in the third year.

- The depreciation of a new asset purchased upon the formation of a renewal fund is to be set off against the renewal fund. If any part of the asset is still undepreciated by the time this offsetting is completed, its depreciation will be written off as an expense for the current year as normal.

Amounts of depreciation set off against the renewal fund are also shown in the books like the others, either directly or indirectly.

When assets whose depreciation is being set off against the renewal fund are sold, accumulated amounts of depreciation are taken into consideration as normal in calculating the profit from the sale. It is possible however to return the profit from the sale to the renewal fund.

Insurance compensation for insured fixed assets

Article 329 of the Turkish Procedural Tax Code covers insurance compensation for non-current assets and reads as follows:

"If the insurance compensation received for economic assets subject to depreciation which lose all or part of their value as a result of natural disasters such as fire, earthquake, or flood, is more or less than their value (or in the case of those which are depreciated, the value remaining after the amounts of depreciation have been deducted), then the difference shall be written off as a loss or profit."

If the renewal of the economic asset whose insurance compensation is received is considered essential based upon the nature of the business, or if a decision has been made in this respect by those managing the enterprise and they have taken steps to carry it out, then the positive difference between the insurance compensation and the book value of the non-current asset may be maintained in a liability account as a "renewal fund" instead of being entered into the Profit and Loss account. The positive difference entered into this account however must be used for the replacement of the non-current asset within three years. Any amounts of the renewal fund that go unused during this three-year period have to be credited as income to the Profit and loss account.

Example

A warehouse building registered with a cost value of TL 300.000.000 in the "Buildings" account and insured at that value has accumulated depreciation worth TL 60.000.000. As a result of a fire that breaks out, the warehouse building burns down and TL 300.000.000 is collected from the insurance company as compensation. The company's management decides that the warehouse building is essential for the conduct of the business and undertakes to acquire a new one.

The journal entries that need to be made in this situation are shown below.

On the date of the fire:

Insurance compensation account	300.000.000	
Buildings account		300.000.000

(Debited to the insurance company as compensation for the warehouse building destroyed by fire)

When the compensation is collected:

Cash account	300.000.000	
Accumulated Depreciation account	60.000.000	
Insurance compensation account		300.000.000
Warehouse renewal fund account		60.000.000

(Collection of the compensation for the warehouse and entry of the positive difference into the Warehouse replacement fund)

Valuation of tangible fixed assets

Tangible fixed assets that are part of a commercial enterprise are evaluated at their cost price. This cost price however is different for fixed assets that are purchased and for those that are manufactured.

Valuation of purchased tangible assets

We have already indicated how the cost of purchasing is determined. What needs to be explained here is the matter of which kinds of expenses may be added to the naked purchasing price of tangible fixed assets of this nature.

To the cost of making the purchase one may add the expenses arising from purchasing an existing building and tearing it down and clearing the land as well as - in cases where machinery, plants, and their spare parts are imported from abroad - customs duties and outlays made for shipping and installation.

The addition of expenses and fees incurred for notaries public, registrars of deeds, courts, assessment commissions, and announcements to the purchasing price (and thus to prime cost) is optional: such outlays can be added to cost but they can also be recorded as expenses for the current period.

It is obligatory however that amounts of interest that become finalized by means of their payment or accrual by the end of the fiscal period in which purchased non-current assets are capitalized be included in the cost of the non-current asset. Interest that accrues after a non-current asset has been capitalized may be included in the cost of the non-current asset or written off as a loss in the year it accrues, as one prefers.

Valuation of tangible fixed assets that are manufactured or constructed

In the event that tangible fixed assets are constructed or manufactured, the cost of construction or production replaces the cost of purchasing. In order to determine the cost of a newly - constructed building, one needs to add together the cost of all the materials expended in the construction together with any other expenses that were occurred.

Valuation of intangible fixed assets

Intangible fixed assets consist of organization expenses, goodwill, franchises, trade names, trademarks, patents, and other literary and industrial property rights.

Valuation of organization expenses

Expenditures that are made in the establishment of a company, in the opening of a new branch, or for the continued expansion of business and in return for which no material value is acquired are referred to as "organization expenses". Such expenses are usually incurred only once, when a firm is being established or in the course of its expansion.

The capitalization of organization expenses is optional. They are evaluated at recorded (written) value and the criterion is the payment that was made. The law even stipulates that such expenses cannot exceed the actual cost of incorporation (organization).

Valuation of goodwill

In Turkish tax code, "goodwill" refers to a payment received in the course of the transfer or assignment of a business enterprise that is in excess of the value of the net assets. The recorded value of goodwill should be expressed in terms of actual payment. According to the Turkish tax law, goodwill is to be evaluated at its recorded value. The first consideration that makes the evaluation of goodwill different from that of organization expenses is that in the case of the first, it is obligatory to capitalize amounts that are over TL 100.000. The second difference is that organization expenses can only be capitalized by incorporations whereas all real persons and legal entities must capitalize goodwill.

Valuation of patents

A "patent" is a statement of invention or discovery given in order to protect industrial innovations that particular individuals or enterprises come up with. No person or organization other than the patent - holder may derive any benefit from the patent-holder's innovation though the patent - holder may turn over his rights to another in return for some specific payment. A patent - holder's innovations can neither be used by others without his knowledge nor may they produce the goods that he produces. Patents are entered into the accounts at their cost value.

Valuation of franchises

Franchises are rights obtained from the state for the exploitation of natural resources (particularly minerals) that are owned by the state.

The payment made for acquiring a franchise from the state and other expenses related to the purchase are the cost of the franchise. Franchises are evaluated at cost.

Valuation of trade names

An enterprise's trade name is the name under which it is registered with a commercial registry. Trade names may be invested as capital in a business: that is, the right to a name may be offered for the benefit of a different enterprise in return for a payment. The cost of the purchase together with expenses incurred in its registration consitute the trade name's cost.

Valuation of trademarks

A "trademark" can be any sign or mark that is placed by the manufacture on a product. The right to use a trademark may be turned over to third parties for a specific period of time. The cost of the trademark plus the expenses entailed in transferring and registering it constitute its total cost. Trademarks are evaluated at cost.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Valuation of copyrights

The rights to a work that is the product of thought in the fields of science, literature, or the fine arts are called "copyrights". This right represents the privilege to which the author of the work is entitled. In practice, copyright - holders generally transfer their rights to a work entirely to someone else. The amount that the recipient pays for the transfer is the cost of the copyright.

THE REVALUATION OF FIXED ASSETS

Revaluation is a matter of concern in the case of the depreciable fixed assets that are included in an enterprise's balance sheet.

General information concerning the legal aspects of fixed assets revaluation

The revaluation of fixed assets went into legal effect on 1 January 1983 when Interim article 11 of the Tax Procedures Code was amended by article 14 of Statute 2791. Accordingly, those with an income tax or corporate tax liability (excluding exceptional or restricted - income taxpayers, but including general partnerships, limited partnerships, and ordinary partnerships) who maintained books on a balance sheet basis would be allowed to revalue not only their depreciable fixed assets in their balance sheets but also the amounts of accumulated depreciation shown in the liabilities side of their balance sheets as being set aside for those assets.

The revaluation provided for by Statute 2791 was a one-only affair. By means of an amendment made by Statute 3094 passed on 12 December 1984, provision was made so that this revaluation could take place every year beginning with the end of fiscal year 1984.

Beginning with the end of fiscal year 1982, a fixed coefficient method was employed as the criterion for revaluation but under Statute 3094, an amendment was made whereby a "rate of revaluation" was to serve as the basis. The law stipulated that this rate was to be calculated and announced each year by the Ministry of

Finance and Customs. Since 1984 the rates announced have been:

MARMARA ÜNİVERSİTESİ YAYINEVİ

1984 37.5 %
1985 35.9 %
1986 21.7 %
1987 29.1 %
1988 63.2 %
1989 70.4 %

Accordingly, taxpayers each year revalued their fixed assets and their accumulated depreciation funds by multiplying their balance - sheet values by the amounts declared for that year.

The amount resulting from the substraction, from the assets - side value of a fixed asset subject to revaluation, of the amount of accumulated depreciation set aside for it on the liabilities side is known as its "net assets value before revaluation". The amount resulting after both those figures have been multiplied by the revaluation rate announced for the current and the latter has been subtracted from the former is known as the "net assets value after revaluation". The figure resulting from the subtraction of the "net assets value after revaluation" is called the "revaluation increase". This last figure must be shown in a special balance - sheet liabilities fund account that may be called a "Revaluation fund account" or a "Revaluation increase account".

Business enterprises that are subject to the income tax are required to show this amount of revaluation in a liability-side fund account and if the amount should in any way be removed from the enterprise, transferred to another account, or added to the capital account, it becomes taxable. For this reason, for enterprises of this sort, revaluation is nothing more than an adjustment of their balance - sheet values. When those with an income tax liability who are revaluing their assets set aside amounts for depreciation, they make use of the depreciation rate applicable to the pre-revaluation value.

Those with a corporate tax liability on the other hand may add the amount of revaluation resulting from the revaluation of their fixed assets to their company share capital without its being taxable. In the event that such an addition is made, stockholders are issued shares of stock free of charge. Such taxpayers are also allowed to set aside amounts of depreciation for fixed assets subject to revaluation on the basis of their new values. (Buildings, lots, and land however are subject to depreciation at their pre-revaluation values.)

The revaluation of fixed assets and their accounting

MARMARA ÜNİVERSİTESİ YAYINEVİ

Example 1:

X Inc opened revaluation fund accounts in 1987 on the basis of its balance sheet dated 31 December 1986. By means of an amendment made by Statute 3094 in the law governing revaluation, it was made possible for revaluations to be carried out every year beginning from the end of 1984 and for depreciation to be set aside for fixed assets at their new values starting from the fiscal year in which revaluation took place. Let us assume that X Inc performed its first revaluation at the end of 1987 and that it has set aside a depreciation fund of 25 % of the fixed assets' new value. The revaluation ratio announced by the Ministry of Finance and Customs for 1987 was 29.10. Under these conditions the accounting entries for the revaluation of X Inc's fixed assets would be as follows:

Assets	Balance sheet as of Dec. 31, 86		Liabilities
Cash	1.750.000	Capital	20.000.000
Goods	10.250.000	Profit	2.000.000
Machinery	15.000.000	Acc. depreciation	5.000.000
	27.000.000		27.000.000

Let us now look at the 1987 accounts opened up on the basis of the balance sheet given above.

Machinery account

1)	15.000.000

Accumulated depreciation account

	1) 5.000.000

When the machinery and accumulated depreciation in the accounts above are subjected to revaluation at the end of 1987, the related amounts of revaluation increase would be calculated as follows:

Machinery	15.000.000 x 0.291 = 4.365.000
Accumulated depreciation	5.000.000 x 0.291 = 1.455.000
Net assets revaluation increase	10.000.000 x 0.291 = 2.910.000

This revaluation increase would be shown in the books of account as follows:

72——— Dec. 31 1987 ———

Machinery Account	4.365.000	
Acc. Depreciation Acct.		1.455.000
Revenue Fund Acct.		2.910.000

Accounting entry for amounts of revaluation increase resulting from the revaluation of machinery

When this transaction is transferred to the general ledger it would look like this:

Machinery account

1)	15.000.000		
72)	4.365.000		
	19.365.000		

Accumulated depreciation account

		1)	5.000.000
		72)	1.455.000
			6.455.000

Revaluation fund account

		72)	2.910.000

As the entries above show, the value of the machinery has risen to TL 19.365.000. Depreciation in 1987 will be set aside on the basis of this new figure:

73——— Dec. 31 1987 ———

Profit & Loss Account	4.841.250	
Acc. Depreciation Account		4.841.250

25 % depreciation set aside for machninery

When this transaction is transferred to the general ledger it would look like this:

MARMARA ÜNİVERSİTESİ YAYINEVİ

Machinery account

1)	15.000.000		
72)	4.365.000		
	19.365.000		

Accumulated depreciation account

		1)	5.000.000
		72)	1.455.000
		73)	4.841.250
			11.296.250

Revaluation fund account

		72)	2.910.000

Profit and loss account

73)	4.841.250		

Balance sheet as of Dec. 31, 87

Assets		Liabilities	
Cash	3.854.500	Capital	20.000.000
Goods	12.025.000	Profit	1.038.250
Machinery	19.365.500	Acc. depreciation	11.296.250
		Revaluation fund	2.910.000
	35.244.500		35.244.500

At the end of 1988, X Inc would again perform its revaluation as indicated above using the revaluation rate for 1988.

Example 2:

Y Inc was founded on January 1, 1986 at which time it had TL 2.000.000 worth of fixed assets consisting of machinery recorded on its books. Because the revaluation of fixed assets was not allowed at the time these assets entered the books, no revaluation was made for them at the end of fiscal yer 1986 and thus only depreciation is set aside for them at the end of that year. The company chose to make use of the accelerated depreciation method and the depreciation rate it employed was 50 %. on this basis, the entries would be as follows:

82	Dec. 31 1986		
	Profit & Loss Account	1.000.000	
	Acc. Depreciation Account		1.000.000
For depreciation set aside at the rate of 50 % in accordance with the accelerated depreciation method for fixed assets			

Let us make the general ledger entries for this transactions:

Machinery account

1)	2.000.000		

Accumulated depreciation account

		82)	1.000.000

Profit and loss account

		82)	1.000.000

The balance - sheet accounts would look like this:

Assets	Balance sheet as of Dec. 31, 86	Liabilities & O.E	
Cash	6.500.000	Capital	10.000.000
Goods	9.000.000	Profit	5.000.000
Machinery	2.000.000	Accounts payable	1.500.000
		Acc. depreciation	1.000.000
	17.500.000		17.500.000

Example 3:

Let us consider the example of Y Inc just given above again and this time set out the relevant 1987 accounts on the basis of the balance sheet dated December 31, 1986.

ANKARA ÜNİVERSİTESİ YAYINEVİ

Machinery account

1)	2.000.000		

Accumulated depreciation account

		1)	1.000.000

After this company subjects its fixed assets to revaluation at the end of 1987, it will then set aside depreciation according to the accelerated depreciation on the basis of the new value. The rate of depreciation applicable to the revalued amount of the fixed assets is 50 %. The rate of revaluation announced for 1987 is 29.1 %. Let us now make the necessary entries on this basis and draw up the balance sheet for 1987.

Revaluation:

Fixed assets	(2.000.000 x 0.291 =)	582.000
Accumulated depreciation	(1.000.000 x 0.291 =)	– 291.000
Net assets value	(1.000.000 x 0.291 =)	291.000

56 Dec. 31 1987

Machinery account		582.000	—	
	Acc. Depreciation Account			291.000 —
	Revaluation Fund Account			291.000 —
Accounting entries for amounts of revaluation increase resulting from the revaluation of fixed assets				

When this transaction is transferred to the general ledger, the entries will be as follows:

Machinery account

1)	2.000.000		
56)	582.000		
	2.582.000		

MARMARA ÜNİVERSİTESİ YAYINEVİ

Accumulated depreciation account

	1)	1.000.000
	56)	291.000
		1.291.000

Revaluation fund account

	56)	291.000

Let us now set aside the depreciation for 1987, the amount of which is (2.582.000 – 1.291.000) x 0.50 =) TL 645.000:

57	Dec. 31 1987			
	Profit and Loss Account	645.500		
	Acc. Depreciation Account		645.500	

We now make the general ledger entries for this transaction:

Profit and loss account

57)	645.500		

Profit and loss account

	1)	1.000.000
	56)	291.000
	57)	645.500
		1.936.500

And this is what the balance - sheet accounts will look like:

Assets	Balance sheet as of Dec. 31, 87		Liabilities & O.E
Cash	4.645.500	Capital	10.000.000
Goods	10.500.000	Profit	4.500.000
Machinery	2.582.000	Accounts payable	1.000.000
		Acc. depreciation	1.936.500
		Revaluation fund	291.000
	17.727.500		17.727.500

34 ACCOUNTING FOR LIABILITIES AND OWNERS' EQUITY

The first item on the liability side of any balance sheet is usually **current liabilities**. It generally includes all debts due within one year from the balance sheet date. Current liabilities include primarily:

- accounts payable
- notes payable
- dividends payable
- accrued expenses payable
- taxes payable
- other current liabilities.

Under the heading of long - term liabilities are listed debts due, after one year from the balance sheet date.

Owners' equity or stockholders' equity (shareholders' equity) is the total equity interest that the stockholders have in the corporation. It is separated into two main categories for legal and accounting reasons:

- Capital stock
- Retained earnings.

Capital stock represents the shares which are evidenced by stock certificates issued by the corporation to the shareholders. Retained earnings is the portion of owners's equity derived from income.

340 ACCOUNTING FOR ACCOUNTS PAYABLE

Accounts Payable represents the amounts that the company owes to its regular business creditors from whom it has bought goods on open account. Accounting for accounts payable has been treated at length earlier in the text book while dealing with receivables.

The company usually has 30, 60 or 90 days in which to pay its debt to the suppliers. Sometimes, as an inducement to pay promptly, the suppliers give a cash discount of, say, 2 percent. If an account payable is 1.000.000 TL. with terms of 2 percent in 10 days, net in 30 days (2 / 10; n / 30), payment of the debt within 10 days earns 20.000 TL. and 980.000 TL. will settle the invoice for 1.000.000 TL.

Under the gross method, the following journal entry will be made at the time of purchase:

Purchases		1.000.000	
	Accounts Payable		1.000.000

The payment of the invoice within 10 days will be journalized as shown below:

Accounts Payable		1.000.000	
	Purchase discounts		20.000
	Cash		980.000

Under the net method which is not applicable according to Turkish Laws, the transaction will be recorded in the following way at the time of purchase.

Purchases		980.000	
	Accounts Payable		980.000

The payment of the invoice within 10 days will be journalized as shown below

Accounts Payable		980.000	
	Cash		980.000

If the invoice is paid after 10 days, the following entry will be made:

Accounts Payable		980.000	
Discount Lost		20.000	
	Cash		1.000.000

The final balance of the Accounts payable account shows how much the firm owes to all its creditors. The accounts payable subsidiary ledger contains individual accounts for the firm's creditors. The accountant can find out the amount owed to each creditor from the subsidiary ledger.

Valuation of Accounts Payable

The accounts payable of business enterprises are evaluated at their recorded value. If there are any claims among the company's debts that have been renounced

by means of debt composition or reconciliation with creditors, such obligations are to be transferred into a special provision account. If this account is not closed out with a loss within three years starting from the end of the year in which the creditor forgoes his claim, it is transferred to the profit side. The accounts payable of banks, financiers, and insurance companies are discounted to their present value on the date of evaluation using either the official discount rate or else the rate they normally employ. (In other words, they are evaluated at their present value.)

341 ACCOUNTING FOR NOTES PAYABLE

Notes Payable are obligations represented by promissory notes. When a promissory note is issued or a draft is accepted, 'Notes Payable' account should be credited. When the note payable becomes due, it should be paid and the 'Notes Payable' account should be debited.

Notes Payable

- Payment of a promissory note	- Issuing a promissory note
- Payment of an accepted draft	- Acceptance of a draft
- Renewal	

Assume that 'X' company issued a promissory note to the order of its supplier 'Y' company, face value of 3.000.000 payable 60 days after date and gave it to 'Y' company.

'X' company will make the following journal entry:

Accounts Payable	3.000.000	
Y Co.		
Notes Payable		3.000.000

Assume that 'Y' company drew a draft on 'X' company, face value of 2.000.000 TL., payable 60 days after date to the order of 'Z' company. The draft was accepted by 'X' company and was given to 'Z' company.

'X' company will make the following entry:

Accounts Payable	2.000.000	
Y Co.		
Notes Payable		2.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

The payment of the draft on the maturity date will be journalized as shown below:

Notes Payable		2.000.000	
	Cash		2.000.000

Sometimes the firm that has issued a note asks for an extension of time in which to pay. If the holder accepts to change the maturity date, the debtor will issue a new promissory note and give it to the creditor getting back the old one. This procedure is called "renewal of notes payable" Renewing a note payable may be at par value or above par value. Below is shown the journal entries of the debtor for the renewal of notes payable at par value and above par value.

Renewing a note payable at par value:

Notes Payable		2.000.000	
	Notes Payable		2.000.000

Renewing a note payable above par value:

Notes Payable		2.000.000	
Interest expense		100.000	
	Notes Payable		2.100.000

The holder of the new promissory note will journalize the renewal as shown below:

Notes Receivable		2.000.000	
	Notes Receivable		2.000.000

Notes Receivable		2.100.000	
	Interest Revenue		100.000
	Notes Receivable		2.000.000

Valuation of Notes Payable

Valuation according to the Turkish Commercial Code

According to TTK 75, " ... Liabilities - and in particular, all obligations of debt - shall be entered into the accounts at their nominal value, even if they are contingent or have fixed terms."

MARMARA ÜNİVERSİTESİ YAYINEVİ

Valuation according to the Tax Procedures Code

In accordance with the general provisions of the Tax Procedures Code concerning obligations, notes payable are evaluated at their recorded value but the enterprise may, if it wishes, evaluate such debts at their value on the valuation date, which is to say at their present value. When evaluating their present value, each note must be considered individually since notes may not have identical maturities. The interest for the days remaining between the evaluation date and the date of the note's payment is calculated and subtracted from the nominal value of the note, thus yielding the present value. If the note's rate of interest is not specifed, the Central Bank's official discount rate is used.

When notes receivable are rediscounted, the previously deducted value of the notes payable should also be calculated though some people are of the opinion that only the rediscount value is applicable.

In the event that a part of a business's notes payable are forgone by a creditor through debt compilation or reconciliation, that portion is transferred by the business to a special provisional account.

"Receivables that are relinquished after composition or by amicable agreement shall be placed in a special provision account in the debtor's books.If the contents of this account are not eliminated by a loss within three years following the year in which the receivable was relinquished, they shall be transferred to the profit side." (VUK 324)

According to VUK 280, notes payable drawn up in a foreign currency are evaluated (like foreign currency) at the rates specified by the Ministry of Finance and Customs.

Adjustments and adjusting entries in the Notes Payable account

Supposing that the nominal value of an enterprise's Notes payable account is worth TL 300.000.000 on the balance sheet day and that its present value is TL 280.000.000, the adjusting entries that would have to be made are as follows:

Notes payable prior discount account	20.000.000	
Interest revenue account		20.000.000

(Entry, as income, of the difference resulting from notes payable being evaluated at their present value)

When the amount of the prior discount is entered into the books with the above - indicated item, it takes the form, as a negative value on the liabilities side, of an adjustment the value of notes payable. Prior discounts are never subtracted directly from the Notes Payable account.

MARMARA ÜNİVERSİTESİ YAYINEVİ

At the beginning of the year following the one in which notes payable are evaluated at their present value, the difference from their present value is transferrede to an expense account and thus eliminated. The entries that to be made the following year would be like this:

Interest and commission expenses	20.000.000	
Notes payable prior discount account		20.000.000

(Closing the account)

342 ACCORDING FOR OWNERS' EQUITY

Owners' equity is a general term representing the shareholders' equity for a corporation, partners' equity for a partnership and the proprietor's equity for an individual proprietorship.

In the balance sheet of an individual proprietorship which is formed by one person, the owner's equity is shown as a single amount. When someone invests in his own company, the amount of investment is recorded in a capital account. The withdrawals of the owner may be debited to the 'Drawing account' which is a special kind of owner's equity account. Accountants do not prefer to make a direct debit to the capital account for the withdrawals of the proprietor. At the end of each accounting period, the drawing account is closed to the capital account. The credit balance of the revenue and expense account is also closed to the capital account.

In accounting for partners' equity, separate capital and drawing accounts should be maintained for each partner. If the drawing account of a partner shows a credit balance, he will be a creditor of the firm. If the drawing account shows a debit balance, he will be a debtor to the firm. In a partnership, the division of profit or loss is made according to the articles of partnership.

The owners' equity of a corporation is called stockholders' equity (shareholders' equity). The owners' equity section of a corporation is different from the balance sheet presentation of a proprietorship and partnership. The equity section of a corporation is divided into two parts;

- Contributed capital
- Retained earnings

The 'contributed capital' is the amount invested by the stockholders in the corporation. The 'retained earnings' account represent the earnings of the business that are not distributed to the stockholders but are reinvested in the corporation. The balance of "revenue and expense" account is transferred to the "retained earnings' account at the end of each accounting period. The corporation must account to its owners for the amount of earnings accumulated and available for distribution as dividends. In fact a certain amount of accumulated earnings will be unavailable for dividend declaration, because of legal restrictions. Legal reserve funds are compulsory according to Turkish Laws. The establishment of special reserve accounts are necessary to record restricted earnings. Reserve accounts should be reported under the headings of retained earnings on the balance sheet. Generally 'retained earnings' account carry a credit balance, but sometimes it may carry a debit balance. This happens when a firm's losses and distributions to stockholders are greater than its profits from operations. In this case the company is said to have a deficit in Retained Earnings. This is shown as a deduction in the stockholders' equity section of the balance sheet. The 'retained earnings' account is affected by several kinds of transactions such as profit or losses of a company and dividend declarations. There is usually a small time lag between the date of declaration and the date of payment of dividends. During that time, the dividends declared are current liabilities of the corporation. The following journal entry should be made at the time of declaration;

Dividends		X	
	Dividends Payable		X

The journal entry at the time of payment will be as follows

Dividends Payable		X	
	Cash		X

At the end of each accounting period the 'dividends account' is closed to the 'reatined earnings' account.

Retained Earnings		X	
	Dividends		X

Reserve Funds

Reserve funds are set aside out of profits arising at the end of the fiscal year: in other words, reserves are a retention, within the enterprise, of profits that are not distributed to the shareholders.

Funds that are set aside at the end of a fiscal year out of profits in order to be able to meet unanticipated risks that the enterprise might encounter (losses, a policy of dividend distributions at some specific ratio, etc.) are recorded in the "Reserve funds account".

Reserve funds are generally employed in enterprises that operate as companies. Because the stated capital in a company is determined in the provisions of its articles of association, additional funding of the company makes it necessary to comply with a number of formalities.

The establishment of reserve funds in addition to and in support of the capital account is an expedient that makes it possible to distinguish (in formal terms) between the two. From the standpoint of bookkeeping techniques, reserve fund accounts always operated as a credited account and the credit balance they show are included in the liabilities side of the balance sheet.

The types of reserve funds are discussed below.

Legal reserves

Legal reserves are those stipulated in the Turkish Commercial Code: in other words, such reserves are set aside in accordance with the provisions of law.

TTK 466 is concerned with legal reserves and states:

"Every year, one - twentieth of net profits must be set aside as a general legal reserve until the reserve becomes equal to one - fifth of the principal paid up capital."

Statutory reserves

Statutory reserves are reserve funds that must be set aside in accordance with the terms of a company's articles of association. They are set aside from profits at contractually stipulated rates after the legal reserves have been set aside and are then entered into the appropriate accounts.

Optional reserves

When determining the amount of profit to be distributed to shareholders after the reserves that must be set aside in accordance with the provisions of law or of the company's articles of association have been deducted, a company's general assembly (or its board of directors) may decide to set aside a part of the profit as an optional or extraordinary reserve fund.

Among the principal reasons why management might make such a decision are a desire to be able to meet possible future losses and to ensure the continuity of the company's distribution of dividends.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Problem 12

The given Trial Balance was taken from the books of ATU Company at the close of business for the year 1989. The following information was also obtained from the records maintained by ATU Co.

- The count of the materials and supplies which are used for services rendered shows 870.000 TL as the cost of those on hand.
- ATU Co. received an allowance from the supplier, 'X' Co. in the amount of 250.000 TL for the merchandise purchased
- The accrued interest on bank loan amounts to 400.000 TL.
- It is proved that 800.000 TL receivable from A Company which is shown among the total "Accounts Receivable" is uncollectible.
- A customer requested and received an allowance of 650.000 TL for the merchandise that has been sold during the year.
- Rent for the warchouse shown in the Balance Sheet is for 2 years.
- The car purchased in 1987 is subject to depreciation at 25 % year. The straight - line method of depreciation is used.
- A physical count of the goods on hand as of Dec. 31, 1989 reveals that the cost value of the defective goods are 400.000 and their market value are 150.000 TL (Use Allowance method).
- The contract of service was signed on June 30, 1989 for two years, and the total amount of contract 25.000.000 TL was collected in advance.

Required

1. Complete the given Work Sheet for the year ending Dec. 31, 1989.
2. Journalize and post the adjusting entries.
3. Make the journal entries necesary to close the books, and post them to 'T' accounts.

WORK SHEET ATU CO. As of Dec. 31, 1989

ACCOUNTS	Total		Balance		Adjustments		Adjusted Trial Blance		Revenue and Expense S.A.		Redained Earnings		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Expense	Revenue	Debit	Credit	Assets	Liab./O.E.
Cash	15.986.000	10.006.000	5.980.000	–										
Accounts Receivable	32.006.000	19.286.000	12.720.000	–										
Accrued Revenue Receivable	–		–	–										
Inventory	86.900.000	82.400.000	6.500.000	–										
Damaged Goods	–	–	–	–										
Material and Supplies	2.250.000	–	2.250.000	–										
Prepaid Rent	270.000	–	270.000	–										
Land	55.000.000	–	55.000.000	–										
Car	60.000.000	–	60.000.000	–										
Investment in Bonds	20.000.000	–	20.000.000	–										
Accumulated Depreciation	–	45.000.000	–	45.000.000										
Allowance for Dam. Goods	–	–	–	–										
Accounts Payable	30.959.000	32.400.000	–	1.450.000										
Taxes Payable	27.720.000	30.240.000	–	2.520.000										
Service Fees in Adv.	–	25.000.000	–	25.000.000										
Accrued expense pay.	–	–	–	–										
Long Term Bank Loans	–	16.000.000	–	16.000.000										
Retained Earning Beg	–	12.500.000	–	12.500.000										
Dividends	3.600.000	–	3.600.000	–										
Capital Stock	–	60.000.000	–	6.000.000										
Cost of Goods Sold	82.400.000	–	82.400.000	–										
Selling commissions	6.900.000	–	6.900.000	–										
Delivery expense	2.280.000	–	2.280.000	–										
Sales Allowances	–	–	–	–										
Salaries Expense	33.500.000	–	33.500.000	–										
Bad debt expense	–	–	–	–										
Rent expense	–	–	–	–										
Interest Expense	–	–	–	–										
Miscellaneous expense	400.000	–	400.000	–										
Depreciation expense	–	–	–	–										
Materials Supp. expense	–	–	–	–										
Sales Revenue	–	138.430.000	–	138.430.000										
Service Revenue	–	–	–	–										
Purchase Allowance	–	–	–	–										
Interest Revenue	–	–	–	–										
Revenue . Expense Summary	–	–	–	–										
Retained Earnings End.	–	–	–	–										
	471.250.000	471.250.000	300.900.000	300.900.000										

MARMARA ÜNİVERSİTESİ YAYINEVİ

Solution to Problem 12

MARMARA ÜNİVERSİTESİ YAYINEVİ

Dec. 31			
Materials and Supplies expense		1.380.000	
	Materials and Supplies		1.380.000
Accounts Payable		250.000	
	Purchase Allowances		250.000
Interest expense		400.000	
	Accrued Expense Payable		400.000
Bad debt expense		800.000	
	Accounts Receivable		800.000
Sales Allowances		650.000	
	Accounts Receivable		650.000
Rent expense		135.000	
	Prepaid rent.		135.000
Depreciation expense		15.000.000	
	Accumulated Depreciation		15.000.000
Damaged goods		400.000	
	Inventory		400.000
Misc. Expense		250.000	
	Allowance for D.G.		250.000
Service fees in advance		6.250.000	
	Service revenue		6.250.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Revenue and Expense		144.195.000	
	CGS		82.400.000
	Selling commissions		6.900.000
	Delivery expense		2.380.000
	Sales allowances		650.000
	Salaries expense		33.500.000
	Bad debt expense		800.000
	Rent expense		135.000
	Interest expense		400.000
	Miscellaneous expense		650.000
	Depreciation expense		15.000.000
	Materials and Supplies expense		1.380.000
Sales Revenue		138.430.000	
Service Revenue		6.250.000	
Purchase allowances		250.000	
	Revenue and expense		144.930.000
Revenue and Expense		735.000	
	Retained Earnings		735.000
Retained Earnings		3.600.000	
	Dividends		3.600.000
Accumulated Depreciation		60.000.000	
Allowance for Damaged goods		250.000	
Accounts Payable		1.200.000	
Taxes Payable		2.520.000	
Service Fees in advance		18.750.000	
Accrued expense payable		400.000	
Long Term Bank Loans		16.000.000	
Capital Stock		60.000.000	
Retained Earnings		9.635.000	
	Cash		5.980.000
	Accounts Receivable		11.270.000
	Inventory		6.100.000
	Damaged Goods		400.000
	Materials and Suppliers		870.000
	Prepaid rent.		135.000
	Land		55.000.000
	Car		60.000.000
	Investment in bonds		29.000.000

Cash

15.980.000	10.000.000
	5.980.000
15.980.000	15.980.000

Accounts Receivable

32.000.000	19.280.000
	800.000
	650.000
32.000.000	20.730.000
	11.270.000
32.000.000	32.000.000

Building

88.900.000	82.400.000
	400.000
88.900.000	82.800.000
	6.100.000
88.900.000	88.900.000

Damaged Goods

400.000	400.000

Materials Supplies

2.250.000	1.380.000
	870.000
2.250.000	2.250.000

Prepaid Rent.

270.000	135.000
	135.000
270.000	270.000

Land

55.000.000	55.000.000

Cars

60.000.000	60.000.000

Investment in bonds

29.000.000	29.000.000

Accumulated Depreciation

	45.000.000
	15.000.000
60.000.000	60.000.000

Allowance For Damaged Goods

250.000	250.000

Accounts Payable

30.950.000	32.400.000
250.000	
31.200.000	32.400.000
1.200.000	
32.400.000	32.400.000

Taxes Payable

27.720.000	30.240.000
2.520.000	
30.240.000	30.240.000

Service Fees in Advance

6.250.000	25.000.000
18.750.000	
25.000.000	25.000.000

Accrued Expenses Payable

400.000	400.000

Long Term Bank Loans	
16.000.000	16.000.000

Retained Earnings	
3.600.000	12.500.000
	735.000
3.600.000	13.235.000
9.635.000	
13.235.000	13.235.000

Dividends	
3.600.000	3.600.000

Capital Stock	
60.000.000	60.000.000

Cost of Goods Sold	
82.400.000	82.400.000

Selling Commissions	
6.900.000	6.900.000

Delivery Expense	
2.380.000	2.380.000

Sales Allowances	
650.000	650.000

Salaries Expense	
33.500.000	33.500.000

Bad Debt Expense	
800.000	800.000

Rent Expense	
135.000	135.000

Interest Expense	
400.000	400.000

Miscellaneous Expense	
400.000	
250.000	
650.000	650.000

Depreciation Expense	
15.000.000	15.000.000

Materials and Supplies Expense	
1.380.000	1.380.000

Sales Revenue	
138.430.000	138.430.000

Service Revenue	
6.250.000	6.250.000

Purchase Allowances	
250.000	250.000

Revenue and Expense Summary Account	
144.195.000	144.930.000
735.000	
144.930.000	144.930.000

ATU COMPANY

Working Paper For Year Ended December 31, 1989

Acc. No	ACCOUNTS	Total		Balance		Adjustments		Adjusted Trial Blance		Income Statement		Redained Earnings Statement		Balance Sheet	
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Expense	Revenue	Debit	Credit	Assets	Liab./O.E.
	Cash	15.980.000	10.000.000	5.980.000	–	–	–	5.980.000	–	–	–	–	–	5.980.000	–
	Accounts Receivable	32.000.000	19.280.000	12.720.000	–	–	650.000 800.000	11.270.000	–	–	–	–	–	11.270.000	–
	Acc. Revenue Receivable	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	Inventory	88.900.000	82.400.000	6.500.000	–	–	400.000	6.100.000	–	–	–	–	–	6.100.000	–
	Damaged Goods	–	–	–	–	400.000	–	400.000	–	–	–	–	–	400.000	–
	Material and Supplies	2.250.000	–	2.250.000	–	–	1.380.000	870.000	–	–	–	–	–	870.000	–
	Prepaid Rent	270.000	–	270.000	–	–	135.000	135.000	–	–	–	–	–	135.000	–
	Land	55.000.000	–	55.000.000	–	–	–	55.000.000	–	–	–	–	–	55.000.000	–
	Car	60.000.000	–	60.000.000	–	–	–	60.000.000	–	–	–	–	–	60.000.000	–
	Investment in Bonds	29.000.000	–	29.000.000	–	–	–	29.000.000	–	–	–	–	–	29.000.000	–
	Accumulated Depreciation	–	45.000.000	–	45.000.000	–	15.000.000	–	60.000.000	–	–	–	–	–	60.000.000
	Allowance for Dam. Goods	–	–	–	–	–	250.000	–	250.000	–	–	–	–	–	250.000
	Accounts Payable	30.950.000	31.400.000	–	1.450.000	250.000	–	–	1.200.000	–	–	–	–	–	1.200.000
	Taxes Payable	27.720.000	30.250.000	–	2.530.000	–	–	–	2.530.000	–	–	–	–	–	2.530.000
	Service Fees in Adv.	–	35.000.000	–	35.000.000	6.250.000	–	–	18.750.000	–	–	–	–	–	18.750.000
	Accrued expenses pay.	–	–	–	–	–	400.000	–	400.000	–	–	–	–	–	400.000
	Long Term Bank Loans	–	16.000.000	–	16.000.000	–	–	–	16.000.000	–	–	–	–	–	16.000.000
	Retained Earning Beg	–	12.500.000	–	12.500.000	–	–	–	12.500.000	–	–	–	12.500.000	–	–
	Dividends	3.600.000	–	3.600.000	–	–	–	3.600.000	–	–	–	3.600.000	–	–	–
	Capital Stock	–	60.000.000	–	60.000.000	–	–	–	6.000.000	–	–	–	–	–	60.000.000
	Cost of Goods Sold	82.400.000	–	82.400.000	–	–	–	82.400.000	–	82.400.000	–	–	–	–	–
	Selling commissions	6.900.000	–	6.900.000	–	–	–	6.900.000	–	6.900.000	–	–	–	–	–
	Delivery expense	2.380.000	–	2.380.000	–	–	–	2.380.000	–	2.380.000	–	–	–	–	–
	Sales Allowances	–	–	–	–	650.000	–	650.000	–	650.000	–	–	–	–	–
	Salaries Expense	33.500.000	–	33.500.000	–	–	–	33.500.000	–	33.500.000	–	–	–	–	–
	Bad debt expense	–	–	–	–	800.000	–	800.000	–	800.000	–	–	–	–	–
	Rent expense	–	–	–	–	135.000	–	135.000	–	135.000	–	–	–	–	–
	Interest Expense	–	–	–	–	400.000	–	400.000	–	400.000	–	–	–	–	–
	Miscellaneous expense	400.000	–	400.000	–	250.000	–	650.000	–	650.000	–	–	–	–	–
	Depreciation expense	–	–	–	–	15.000.000	–	15.000.000	–	15.000.000	–	–	–	–	–
	Materials Supp. expense	–	–	–	–	1.380.000	–	1.380.000	–	1.380.000	–	–	–	–	–
	Sales Revenue	–	138.430.000	–	138.430.000	–	–	–	138.430.000	–	138.430.000	–	–	–	–
	Service Revenue	–	–	–	–	–	6.250.000	–	6.250.000	–	6.250.000	–	–	–	–
	Purchase Allowances	–	–	–	–	–	250.000	–	250.000	–	250.000	–	–	–	–
	Interest Revenue	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	Revenue - Expense Summary	–	–	–	–	–	–	–	–	144.195.000	144.930.000	–	735.000	–	–
	Retained Earnings End	–	–	–	–	–	–	–	–	735.000	–	9.405.000	–	–	9.405.000
	TOTAL	471.250.000	471.250.000	300.900.000	300.900.000	35.515.000	35.515.000	316.550.000	316.550.000	144.930.000	144.930.000	13.335.000	13.335.000	168.755.000	168.755.000

Problem 13

The trial balance of Graves Co. is given below. Make necessary journal entries, post, prepare the balance sheet as of December 31, 1989.

Preclosing Trial Balance, December 31, 1989

Cash	50.000.000	15.000.000	35.000.000	–
Accounts Receivable	45.000.000	35.000.000	10.000.000	–
Notes Receivable	47.000.000	32.000.000	15.000.000	–
Inventory	160.000.000	80.000.000	80.000.000	–
Fixed Assets	60.000.000	–	60.000.000	–
Accumulated Depreciation	–	9.000.000	–	9.000.000
Accounts Payable	40.000.000	54.000.000	–	14.000.000
Dividents Payable	7.000.000	7.000.000	–	–
Capital Stock	–	154.000.000	–	154.000.000
Retained Earnings	15.000.000	18.000.000	–	3.000.000
Cost of Goods Sold	80.000.000	–	80.000.000	–
Purchase Returns and Allowances	13.500.000	17.500.000	–	4.000.000
Purchase Discount	–	4.000.000	–	4.000.000
Sales Dicount	3.000.000	–	3.000.000	–
Sales Returns and Allowances	9.000.000	–	9.000.000	–
Sales	–	112.000.000	–	112.000.000
Miscellaneous expenses	8.000.000	–	8.000.000	–
	537.500.000	537.500.000	300.000.000	300.000.000

Details of the inventory

200 units of A product x 300.000 = 60.000.000

40 units of B product x 500.000 = 20.000.000

80.000.000

The following information is available for adjusting entries:

- According to the physical count, units of A product on hand as of December 31, 1989 are 198 units. 2 units are lost.
- According to the physical count, units of B product on hand as of December 31, 1989 are 40 units

- 16 units of B product are damaged. Market value of each damaged unit is estimated 370.000 TL (Use Allowance method).
- Fixed Assets are subject to % 15 depreciation.
- A note receivable which has a face value of 400.000 TL proved to be uncollectible.
- According to the physical count, 35.400.000 TL cash, is in the safe, as of December 31, 1989.
- 1.200.000 TL dividends decided to be distributed.
- Credit 900.000 TL from ABC Co. which is one of the customers, proved to be doubtful.

Solution to Problem 13

Dec. 31

Misc. expense		600.000	
	Inventory		600.000
Damaged Goods		8.000.000	
	Inventory		8.000.000
Misc. expense		2.080.000	
	Allowance for D.G.		2.080.000
Depreciation Expense		9.000.000	
	Accumulated Depreciation		9.000.000
Misc. expense		400.000	
	Notes Receivable		400.000
Cash		400.000	
	Cash over		400.000
Retained Earnings		1.200.000	
	Dividends Payable		1.200.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Doubtful Accounts		900.000	
	Accounts Receivable		900.000
Misc. expense		900.000	
	Allowance for Doubtful Accounts		900.000
Revenue and Expense Summary Account		112.980.000	
	CGS		80.000.000
	Sales discounts		3.000.000
	Sales returns and allowances		9.000.000
	Depreciation expense		9.000.000
	Miscellaneous expense		11.980.000
Sales		112.000.000	
Purchase Returns and allowances		4.000.000	
Purchase Discounts		4.000.000	
	Revenue and Expense Summary Account		120.000.000
Revenue and Expense Summary Account		7.020.000	
	Retained earnings		7.020.000
Accumulated Depreciation		18.000.000	
Accounts Payable		14.000.000	
Dividends Payable		1.200.000	
Capital		154.000.000	
Retained Earnings		8.820.000	
Allowance for Damaged Goods		2.080.000	
Cash Over		400.000	
Allowance for Doubtful Accounts		900.000	
	Cash		35.400.000
	Accounts Receivable		9.100.000
	Notes Receivable		14.600.000
	Inventory		71.400.000
	Fixed Assets		60.000.000
	Damaged Goods		8.000.000
	Doubtful Accounts		900.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Revenue and Expense Summary Account

112.980.000	120.000.000
7.020.000	
120.000.000	120.000.000

Cash

50.000.000	15.000.000
400.000	
50.400.000	15.000.000
	35.400.000
50.400.000	50.400.000

Accounts Receivable

45.000.000	35.000.000
	900.000
45.000.000	35.900.000
	9.100.000
45.000.000	45.000.000

Doubtful Accounts

500.000	500.000

Notes Receivable

47.000.000	32.000.000
	400.000
47.000.000	32.400.000
	14.600.000
47.000.000	47.000.000

Inventory

160.000.000	80.000.000
	600.000
	8.000.000
160.000.000	88.600.000
	71.400.000
160.000.000	160.000.000

Fixed Assets

60.000.000	60.000.000

Accumulated Depreciation

	9.000.000
	9.000.000
18.000.000	18.000.000

Accounts Payable

40.000.000	54.000.000
14.000.000	
54.000.000	54.000.000

Dividends Payable

7.000.000	7.000.000
	1.200.000
7.000.000	8.200.000
1.200.000	
8.200.000	8.200.000

Capital

154.000.000	154.000.000

Retained Earnings

15.000.000	18.000.000
1.200.000	7.020.000
16.200.000	25.020.000
8.820.000	
25.020.000	25.020.000

CGS

80.000.000	80.000.000

Purchase Returns and Allowances

13.500.000	17.500.000
4.000.000	
17.500.000	17.500.000

Purchase Discount

4.000.000	4.000.000

Sales Discount

3.000.000	3.000.000

Sales Returns and Allowances

9.000.000	9.000.000

Miscellaneous Expenses

8.000.000	11.980.000
600.000	
2.080.000	
400.000	
900.000	
11.980.000	11.980.000

Depreciation Expense

9.000.000	9.000.000

Sales

112.000.000	112.000.000

Damaged Goods

8.000.000	8.000.000

Allowance for Damaged Goods

2.080.000	2.080.000

Cash Over

400.000	400.000

Allowance for Doubtful Accounts

900.000	900.000

Graves Co
Balance Sheet
December 31, 1989

Cash	35.400.000	Accumulated Depreciation	18.000.000
Accounts Receivable	9.100.000	Accounts Payable	14.000.000
Notes Receivable	14.600.000	Dividends Payable	1.200.000
Inventory	71.400.000	Capital	154.000.000
Fixed Assets	60.000.000	Retained Earnings	8.820.000
Damaged Goods	8.000.000	Allowance for D.G.	2.080.000
Doubtful Accounts	900.000	Cash over	400.000
		Allowance for doubtful Accounts	900.000
	199.400.000		199.400.000

GRAVES COMPANY

Working Paper For Year December 31, 1989

Acc. No	ACCOUNTS	Total		Balance		Adjustments		Adjusted Trial Blance		(Income Statement) Revenue and Expense S. A.		Redained Earnings Statement		Balance Sheet	
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Expense	Revenue	Debit	Credit	Asset	Liab./O.E.
	Cash	50.000.000	15.000.000	35.000.000	-	400.000	-	35.400.000	-	-	-	-	-	35.400.000	-
	Accounts Receivable	45.000.000	35.000.000	10.000.000	-	-	900.000	9.100.000	-	-	-	-	-	9.100.000	-
	Notes receivable	47.000.000	32.000.000	15.000.000	-	-	400.000	14.600.000	-	-	-	-	-	14.600.000	-
	Inventory	160.000.000	80.000.000	80.000.000	-	-	600.000 8.000.000	71.400.000	-	-	-	-	-	71.400.000	-
	Fixed Assets	80.000.000	- -	60.000.000	-	-	-	60.000.000	-	-	-	-	-	60.000.000	-
	Acc. Depreciation	-	9.000.000	-	9.000.000	-	9.800.000	-	18.800.000	-	-	-	-	-	18.800.000
	Accounts Payable	40.000.000	54.000.000	-	14.000.000	-	-	-	14.000.000	-	-	-	-	-	14.000.000
	Dividends Payable	7.000.000	7.000.000	-	-	-	1.200.000	-	1.200.000	-	-	-	-	-	1.200.000
	Capital Stock	-	154.000.000	-	154.000.000	-	-	-	154.000.000	-	-	-	-	-	154.000.000
	Retained Earnings	15.000.000	18.000.000	-	3.000.000	-	-	-	3.000.000	-	-	-	3.000.000	-	-
	COS Returns	80.000.000	-	80.000.000	- -	-	-	80.000.000	-	80.000.000	-	-	-	-	-
	Purchase Return and Allowances	13.500.000	17.500.000	-	4.000.000	-	-	-	4.000.000	-	4.000.000	-	-	-	-
	Purchase Discounts	-	4.000.000	-	4.000.000	-	-	-	4.000.000	-	4.000.000	-	-	-	-
	Sales Discount	3.000.000	-	3.000.000	-	-	-	3.000.000	-	3.000.000	-	-	-	-	-
	Sales Returns and Allowances	9.000.000	-	9.000.000	-	-	-	9.000.000	-	9.000.000	-	-	-	-	-
	Sales	-	112.000.000	-	112.000.000	-	-	-	112.000.000	-	112.000.000	-	-	-	-
	Miscellaneous expense	8.000.000	-	8.000.000	-	400.000 2.000.000 400.000 980.000	-	11.980.000	-	11.980.000	-	-	-	-	-
	Damaged Goods	-	-	-	-	8.000.000	-	8.000.000	-	-	-	-	-	8.000.000	-
	Allowance for Damaged Goods	-	-	-	-	-	2.000.000	-	2.000.000	-	-	-	-	-	2.000.000
	Depreciation Expense	-	-	-	-	9.000.000	-	9.000.000	-	9.000.000	-	-	-	-	-
	Cash Over	-	-	-	-	-	400.000	-	400.000	-	-	-	-	-	400.000
	Dividends	-	-	-	-	1.200.000	-	1.200.000	-	-	-	1.200.000	-	-	-
	Doubtful Accounts	-	-	-	-	400.000	-	400.000	-	-	-	-	-	900.000	-
	Allowance for Doubtful Acc.	-	-	-	-	-	900.000	-	900.000	-	-	-	-	-	900.000
	Revenue and Expense Summary	-	-	-	-	-	-	-	-	7.000.000	-	-	7.000.000	-	-
	Retained Earnings Ending	-	-	-	-	-	-	-	-	-	-	(8.820.000)	-	-	8.820.000
	TOTAL	537.500.000	537.500.000	300.000.000	300.000.000	23.480.000	23.480.000	313.580.000	313.580.000	120.000.000	120.000.000	10.000.000	10.820.000	199.400.000	199.400.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ

4. ACCOUNTING FOR BUSINESS ORGANIZATIONS UNDER THE TURKISH COMMERCIAL CODE

40 FEATURES OF COMPANY ACCOUNTING

There is no special type of accounting as "company accounting": that is, the keeping of a company's books is in no way different from ordinary financial accounting. However because of their legal structure, companies need to record certain transactions in a somewhat different way. These differences consist of three principle types of recording:

- Start - up records
- Profit distribution records
- Records concerning the assumption and discharge of certain obligations

Start-up records:

Real persons put into their commercial enterprises economic values that they posses or over which they have immediate power of disposition. Assets that represent capital are either cash or things that can be converted to cash. In companies, on the other hand, one may fulfill his capital obligations towards the firm by becoming indebted to it. This is never the case in personal firms. For example if a company is formed with a start-up capital of TL 2 million and partner A pays TL 1 million as his share while partner B puts up TL 500 thousand worth of goods, the latter is indebted to the company for TL 500.000

Cash	1.000.000	
Goods	500.000	
Partner B's capital subscription	500.000	
Capital		2.000.000.-

Profit distribution records:

Real persons make no distinction between "capital" and "profit" because both belong to the same individual. When a loss is incurred, one's capital is automatically decreased and if a profit is made, it is automatically increased. From a legal aspect, it is impossible to distinguish which is capital and which is not. According to the Turkish Commercial Code, however, companies must possess a specific and registered amount of capital. Furthermore, companies are not at liberty to dispose of

their profits however they may wish: the manner in which profits are to be distributed is determined by means of a decision that the partners make as a group.

Records concerning the assumption and discharge of certain obligations:

Companies may borrow sums of money by issuing bonds. Such obligations have to be discharged in accordance with special procedures out of the company's annual earnings.

41 ACCOUNTING FOR GENERAL PARTNERSHIPS

A general partnership is a type of firm in which each partner is equally responsible for all the property assets that are put up and not just for his own. In addition, the partners have a successive responsibility towards one another. In other words, in this type of company, the partners are jointly liable with their total assets for all the firm's obligations and commitments. For example, suppose three persons come together and set up a general partnership with capital worth TL 300.000.000 with each of them putting up TL 100.000.000. Let us suppose further that the company fails and in the process has accumulated debts worth TL 2.000.000.000. Because these debts are far in excess of the company's capital, the company's creditors are entitled to have all the assets of all three partners sequestered and none of the partners may avoid payment by asserting that his capital interest was one third of the whole. Each partner is entirely responsible for the whole debt to the degree that his own means permit. Therefore unlimited company (general partnership) is a type of firm that is established only among people who have complete confidence in one another or among the members of a family.

410 FORMATION

The two most important accounts that are opened at start-up are the "Partners' subscription account" and the "Partners' capital account".

Partners' subscription account:

Partners subscription account is debited for the amount of capital they have subscribed to put up under the terms of their articles of incorporation. As they fulfill their commitments, they are credited to this account. The outstanding balance of this account represents the amount of the unpaid capital. This account thus shows the degree to which partners are indebted on account of the capital.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Partners' capital account:

This account is credited with the amount of capital that they have subscribed to put up under the articles of incorporation. This account shows the nominal share of each partner.

As an example, let us assume that three persons form a general partnership under the following conditions:

Yalçın Akıncı TL 150.000.000 (TL 50.000.000 in goods and TL 100.000.000 in cash)

Reşat Gülşen TL 250.000.000 (TL 50.000.000 in machinery and TL 200.000.000 in buildings)

Mehmet Ak TL 100.000.000 (TL 75.000.000 in cash in bank account - A Bank - and TL 25.000.000 payable in six months' time)

The accounts would look like this.

Yalçın Akıncı subscription		150.000.000	
Reşat Gülşen subscription		250.000.000	
Mehmet Ak subscription		100.000.000	
	Yalçın Akıncı capital		150.000.000
	Reşat Gülşen capital		250.000.000
	Mehmet Ak capital		100.000.000
Cash		100.000.000	
Goods		50.000.000	
	Yalçın Akıncı subscription		150.000.000
Buildings account		200.000.000	
Machinery account		50.000.000	
	Reşat Gülşen subscription		250.000.000
A Bank account		75.000.000	
	Mehmet Ak subscription		75.000.000

Once the above journal items recorded in the journal and transferred to the general ledger, the company's beginning balance sheet is drawn up:

MARMARA ÜNİVERSİTESİ

Assets	BEGINNING BALANCE SHEET	Liabilities and partners' Equity	
Current assets		Capital	
Cash	100.000.000	Yalçın Akıncı capital	150.000.000
Goods	50.000.000	Reşat Gülşen capital	250.000.000
A bank	75.000.000	Mehmet Ak capital	100.000.000
Mehmet Ak subscription	25.000.000		
Fixed assets			
Buildings	200.000.000		
Machinery	50.000.000		
Total	500.000.000	Total	500.000.000

411 INCRASE OF CAPITAL

A partnership's capital may be increased in three ways:

- Existing partners increase the amount of their holdings
- New partners are admitted to the company
- Some of the company's debts are converted to capital.

In all three cases, the bookkeeping is identical to that carried out at start-up.

Existing partners increase the amount of their holdings:

Let us assume that the partners in our company increase their shares by 50 % each and that all three partners fulfill their capital obligations by making cash payments. In this case, the journal entries would look like this:

Yalçın Akıncı subscription		75.000.000	
Reşat Gülşen subscription		125.000.000	
Mehmet Ak subscription		50.000.000	
	Yalçın Akıncı capital		75.000.000
	Reşat Gülşen capital		125.000.000
	Mehmet Ak capital		50.000.000
Cash		250.000.000	
	Yalçın Akıncı subscription		75.000.000
	Reşat Gülşen subscription		125.000.000
	Mehmet Ak capital		50.000.000

New partners are admitted to the company:

MARMARA ÜNİVERSİTESİ YAYINEVİ

Let us suppose also that a new partner by the name of Ali Tankut is taken on by the company, that his share is worth TL 250.000.000 and that he pays it entirely in cash:

Ali Tankut subscription		250.000.000	
	Ali Tankut capital		250.000.000
Cash		250.000.000	
	Ali Tankut subscription		250.000.000

Some of the company's debts are converted to capital:

Let us suppose that the company owes to Aybent Gök the amount of TL 100.000.000 and that the other partners agree to allow this debt to be converted into capital

Aybent Gök subscription		250.000.000	
	Aybent Gök capital		250.000.000
Accounts payable (Aybent Gök)		100.000.000	
	Aybent Gök subscription		100.000.000

Transfer of company shares:

In the event that a partner in a company dies and his shares pass to his heirs, the amount of the transfer is debited to the deceased partner's capital account and credited to the (newly opened) capital accounts of his heirs:

Ahmet Kalan capital		150.000.000	
	Orhan Kalan capital		75.000.000
	Kemal Kalan capital		75.000.000

In situations where a partner sells a part of his interest in the company's capital the situation is the same from the standpoint of its accounting. (It is of no concern to the company whether the sale is made at, above, or below par.)

412 DECREASE OF CAPITAL

A company's capital may also be reduced under certain conditions:

- The existing capital is more than the business requires.
- The company sustains a major loss.
- A partner withdraws from the company.

The existing capital is more than the business requires:

Assets		Balance Sheet			Liabilities and Partners' Equity
		Capital			120.000.000
A bank	40.000.000	A capital	60.000.000		
Cash	12.000.000	B capital	60.000.000		
Goods	22.000.000				
Notes Receivable	15.000.000	Acc. depreciation for buildings			10.000.000
		Acc. depreciation for fixtures			1.000.000
Buildings	40.000.000				
Fixtures	2.000.000				
Total	131.000.000			Total	131.000.000

Let us assume that the capital in the company whose balance sheet is given above is to be reduced to TL 80.000.000:

Partner A capital		20.000.000	
Partner B capital		20.000.000	
	Partner A current account		20.000.000
	Partner B current account		20.000.000
Partner A current account		20.000.000	
Partner B current account		20.000.000	
	A bank		40.000.000

The company sustains a major loss:

MARMARA ÜNİVERSİTESİ YAYINEVİ

Balance Sheet

Assets		Liabilities and Partners' Equity	
Cash	3.000.000	Ali Uzun capital account	75.000.000
A Bank	12.000.000	Ahmet Ünlü capital account	75.000.000
Goods	42.000.000		
Accounts Receivable	18.000.000	Accounts payable	15.000.000
Buildings	60.000.000	Accounts depreciation for building	5.000.000
Fixtures	7.260.000	Accounts depreciation for fixtures	2.260.000
Loss	30.000.000		
Total	172.260.000	Total	172.260.000

Ali Uzun capital		15.000.000	
Ahmet Ünlü capital		15.000.000	
	Profit and loss account		30.000.000

If one of the partners were to withdraw from the company, the following entries might be made:

Partner x capital account		50.000.000	
	Partner x current account		50.000.000
Partner x current account		50.000.000	
	A Bank		50.000.000

413 DISTRIBUTION OF PROFIT

In general partnerships, net profits are distributed to the partners in accordance with the procedures indicated in their articles of incorporation. While there are a number of methods, two in particular are most ofter used:

- Profits are divided up in proportion to capital shares.

- Interest is allowed to accrue at some specific rate on different amounts of capital and the balance is distributed equally among the partners.

The method usually employed in Turkey is the first one. Profits are divided up in proportion to individual partners' share in the capital. The following is an example of how such profits are calculated:

Yalçın Akıncı	:	200.000.000 x 0.20 =		40.000.000
Reşat Gülşen	:	350.000.000 x 0.20 =		70.000.000
Mehmet Ak	:	50.000.000 x 0.20 =		10.000.000
		600.000.000		120.000.000

Since every partner in a general partnership has his own current account, the profits to be paid are credited to their individual current accounts and debited to the profit and loss account.

Profit and loss account	120.000.000	
Yalçın Akıncı current account		40.000.000
Reşat Gülşen current account		70.000.000
Mehmet Ak current account		10.000.000

If the company's articles of incorporation stipulate that a reserve fund must be set aside, the amount remaining from profits after the substraction of the reserve is then distributed to the partners.

Interest is allowed to accrue at some specific rate on different amounts of capital and the balance is distributed equally among the partners.

To explain this method, let us assume the partners' capital shares are the same but that the company shows a profit of TL 300.000.000. Interest is calculated at the rate of 40 % on the capital and the balance is distributed equally among the partners. The accounting for this would be as follows:

Interest on Yalçın Akıncı's	capital :	200.000.000	x 0.40 =	TL	80.000.000
Interest on Reşat Gülşen's	capital :	350.000.000	x 0.40 =	TL	140.000.000
Interest on Mehmet Ak's	capital :	50.000.000	x 0.40 =	TL	20.000.000
Total		600.000.000		TL	240.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Profit and loss account	240.000.000	
	Yalçın Akıncı current account	80.000.000
	Reşat Gülşen current account	140.000.000
	Mehmet Ak current account	20.000.000

Profit and loss account	60.000.000	
	Yalçın Akıncı current account	20.000.000
	Reşat Gülşen current account	20.000.000
	Mehmet Ak current account	20.000.000

The manner in which profits are distributed is dependent entirely upon the company's articles of incorporation. The general practices is for the partners who are actively engaged in the business to be paid some specified profit and if there is anything left over it may be divided either in proportion to their shareholdings or else equally.

Because Turkish tax law does not recognize general partnerships as legal entities, no taxes are ever accrued in the firm's name and furthermore, profits are distributed among the partners without any tax withholding being made: the partners in the company must declare whatever they earn from the company as business profits when they file their personal tax returns. If a general partnership shows a loss, it is not entitled to carry it forward on its books or offset it against its future profits: each partner shows an amount of the loss corresponding to his individual shareholding when he files his tax return for that year and must attempt to cover it by means of income that he secures from other sources. The losses that cannot be covered in the current period are allowed to be carried forward into the next fiscal period by individual partners, but they can not do this for more than five years in a row.

In general partnerships, a fiscal period's "commercial earnings" are defined as the difference between the company's partners' equity (net worth) at the beginning and at the end of the period. In his personal income tax return, a partner in a general partnership indicates as a business profit the amount of profit shown in the company's balance sheet and in its profit and loss statement to which he is entitled. In some cases, partners in a general partnership may assume duties in the company in which case they are treated as company employees and it is possible for a partner to lend the company money in which case he may demand the payment of interest in return. According to the Income Tax Code however it is not permissible for the wages or salaries that the company's partners receive from the company or the interest that the company pays them for money they have lent to the company to be written off as a company expense. Such payments (if any) are considered to be funds that have been withdrawn from the enterprise.

414 LIQUIDATION

" Liquidating" a company means converting all its assets to cash, paying off all its debts and dividing whatever - if anything - is left among the partners. If, at the conclusion of a liquidation, the company's debts have not been entirely cleared (which implies that there was nothing to divide up among the partners) then each partner is fully responsible for all the outstanding obligations. Creditors may demand full payment of what is owed to them without regard for the partners' shares in the company's capital. (This demand is usually made of whichever of the partners is financially the strongest.)

Example:

PRE - LIQUIDATION BALANCE SHEET

Assets		Liabilities and partners' Equity	
Cash	6.000.000	Capital	300.000.000
Goods	160.000.000	Partner A	150.000.000
Accounts Receivable	70.000.000	Partner B	150.000.000
Notes Receivable	9.000.000	Accounts payable	145.000.000
Machinery	220.000.000	Notes payable	105.000.000
Fixtures	30.000.000	Depreciation for machinery	35.000.000
Organization expenses	50.000.000	Depreciation for fixtures	5.000.000
Loss	60.000.000	Allowance for doubtful accounts	15.000.000
	605.000.000	Total	605.000.000

The company's liquidation proceeded as follows:

- The machinery was sold for TL 215.000.000.
- The fixtures were sold for TL 20.000.000.
- The goods were sold for TL 190.000.000.
- A total of TL 45.000.000 was collected from customers.
- The Notes receivable were endorsed to the company's creditors, who were also paid a total of TL 130.000.000. TL 105.000.000 paid for Notes Payable
- A total of TL 21.000.000 was paid as the cost of conducting the liquidation.

This transactions would be entered into the books as follows.

1				
	Cash		6.000.000	
	Goods		160.000.000	
	Accounts Receivable		70.000.000	
	Notes Receivable		9.000.000	
	Machinery		220.000.000	
	Fixtures		30.000.000	
	Organization expenses		50.000.000	
	Loss		60.000.000	
		Capital		300.000.000
		Accounts Payable		145.000.000
		Notes Payable		105.000.000
		Acc. Depreciation for machinery		35.000.000
		Acc. Depreciation for fixtures		5.000.000
		Allowance for doubtful Accounts		15.000.000
2				
	Banks		5.000.000	
		Cash		5.000.000
3				
	Acc. Depreciation for machinery		35.000.000	
		Machinery		35.000.000
4				
	Acc. Depreciation for fixtures		5.000.000	
		Fixtures		5.000.000
5				
	Allowance for doubtful accounts		15.000.000	
		Accounts receivable		15.000.000
6				
	Results of liquidation		50.000.000	
		Organization expenses		50.000.000
7				
	Banks		235.000.000	
		Machinery		215.000.000
		Fixtures		20.000.000
8				
	Banks		190.000.000	
		Goods		190.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

9			
	Banks	45.000.000	
	Accounts Receivable		45.000.000
10			
	Accounts payable	9.000.000	
	Notes Receivable		9.000.000
11			
	Accounts payable	130.000.000	
	Notes payable	105.000.000	
	Banks		235.000.000
12			
	Results of liquidation	60.000.000	
	Profit / loss		60.000.000
13			
	Results of liquidation	5.000.000	
	Fixtures		5.000.000
14			
	Results of liquidation	10.000.000	
	Accounts Receivable		10.000.000
15			
	Accounts payable	6.000.000	
	Results of liquidation		6.000.000
16			
	Goods	30.000.000	
	Results of liquidation		30.000.000
17			
	Machinery	30.000.000	
	Results of liquidation		30.000.000
18			
	Results of liquidation	21.000.000	
	Banks		21.000.000

After the journal entries given above have been transferred to the general ledger, a trial balance would be taken after which the following post-liquidation balance sheet would be drawn up.

POST - LIQUIDATION BALANCE SHEET

MARMARA ÜNİVERSİTESİ YAYINEVİ

Assets		Liabilities and partners' Equity		
Cash	1.000.000	Capital		300.000.000
Banks	219.000.000	Partner A	150.000.000	
Results of liquidation	80.000.000	Partner B	150.000.000	
	300.000.000	Total		300.000.000

Capital and results of liquidation accounts are closed into partners' current accounts and they are paid equally.

19				
	Capital		300.000.000	
		Partner A current account		150.000.000
		Partner B current account		150.000.000
20				
	Partner A current account		40.000.000	
	Partner B current account		40.000.000	
		Results of liquidation		80.000.000
21				
	Partner A current account		110.000.000	
	Partner B current account		110.000.000	
		Cash		1.000.000
		Banks		219.000.000

After the accounts have been transferred to the general ledger, the liquidation proceedings are over. Let us take a look at the general ledger entries for this liquidation.

Cash			
1)	6.000.000	2)	5.000.000
		22)	1.000.000
	6.000.000		6.000.000

Fixtures			
1)	30.000.000	4)	5.000.000
		7)	20.000.000
		13)	5.000.000
	30.000.000		30.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Capital

19)	300.000.000	1)	300.000.000

Allowance for doubtful accounts

5)	15.000.000	1)	15.000.000

Goods

1)	160.000.000	8)	190.000.000
16)	30.000.000		
	190.000.000		190.000.000

Organization expenses

1)	50.000.000	6)	50.000.000

Accounts Payable

10)	9.000.000	1)	145.000.000
11)	130.000.000		
15)	6.000.000		
	145.000.000		145.000.000

Accounts Receivable

1)	70.000.000	5)	15.000.000
		9)	45.000.000
		14)	10.000.000
	70.000.000		70.000.000

Profit / loss

1)	60.000.000	12)	60.000.000

Notes Payable

11)	105.000.000	1)	105.000.000

Partner A current account

20)	40.000.000	19)	150.000.000
21)	110.000.000		
	150.000.000		150.000.000

Partner B current account

20)	40.000.000	19)	150.000.000
21)	110.000.000		
	150.000.000		150.000.000

Notes Receivable

1)	9.000.000	10)	9.000.000

Banks

2)	5.000.000	11)	235.000.000
7)	235.000.000	18)	21.000.000
8)	190.000.000		
9)	45.000.000		
			256.000.000
		21)	219.000.000
	475.000.000		475.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Acc. Depreciation for machinery

3)	35.000.000	1)	35.000.000

Machinery

1)	220.000.000	3)	35.000.000
17)	30.000.000	7)	215.000.000
	250.000.000		250.000.000

Results of liquidation

6)	50.000.000	15)	6.000.000
12)	60.000.000	16)	30.000.000
13)	5.000.000	17)	30.000.000
14)	10.000.000		
18)	21.000.000		
	146.000.000		66.000.000
		20)	80.000.000
	146.000.000		146.000.000

Acc. Depreciation for fixture

24)	5.000.000	1)	5.000.000

As we have already said, all the partners in a general partnership are fully liable towards third parties for all the company's obligations. If the results of a liquidation are insufficient to cover the enterprise's debts, the creditors may lodge claim against the personal properties of the partners. As an example, let us suppose that the results of the liquidation were as in the following balance sheet and that one of the partners (A), who invested TL 100 million in the company is financially able to cover the shortfall.

POST - LIQUIDATION BALANCE SHEET

Assets		Liabilities and partners' Equity	
Banks	25.000.000	Capital	200.000.000
Results of liquidation	300.000.000	Partner A	100.000.000
		Partner B	100.000.000
		Accounts payable	125.000.000
	325.000.000		325.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Banks	100.000.000	
Partner A current accuount		100.000.000
Accounts payable	125.000.000	
Banks		125.000.000
Partner A current account	150.000.000	
Partner B current account	150.000.000	
Results of liquidation		300.000.000
Capital	200.000.000	
Partner A current account		100.000.000
Partner B current account		100.000.000

As a result of the foregoing, partner B would owe partner A TL 50 million and if this debt is paid off, it would be accounted for like this:

Partner A current account	50.000.000	
Partner B current account		50.000.000

42 ACCOUNTING FOR LIMITED PARTNERSHIPS

In companies that are limited partnerships, some of the partners (called general partners,unlimited partners, active partners) are fully liable for all the firm's obligations, just as they would be in a general partnership. Some of them however (called limited partners, sleeping partners, silent partners) are liable only up to the amount of capital they have actually put into the business. The partners with unlimited liability (the active partners) may be entitled to certain priorities and privileges in the case of the distribution of profits and this would be stipulated in the firm's articles of incorporation.

420 FORMATION

Because of the distinctions made between active and sleeping partners in companies of this kind, it is necessary to differentiate between them in capital subscription and capital accounts.

Let us suppose that a limited partnership has been formed among the following persons. The partners paid half of their capital subscriptons at the time of formation and pledged to pay the remainder in six months' time:

Active partner A	50.000.000
Active partner B	50.000.000
Sleeping partner C	30.000.000
Sleeping partner D	30.000.000
Sleeping partner E	20.000.000
Sleeping partner F	20.000.000

The journal entries would look like this:

Active partners' subscription account		100.000.000
Active partner A	50.000.000	
Active partner B	50.000.000	
Sleeping partners' subscription account		100.000.000
Sleeping partner C	30.000.000	
Sleeping partner D	30.000.000	
Sleeping partner E	20.000.000	
Sleeping partner F	20.000.000	
Active partners' capital account		100.000.000
Active partner A	50.000.000	
Active partner B	50.000.000	
Sleeping partners' capital account		100.000.000
Sleeping partner C	30.000.000	
Sleeping partner D	30.000.000	
Sleeping partner E	20.000.000	
Sleeping partner F	20.000.000	
Cash	100.000.000	
Active partners' subscription account		50.000.000
Active partner A	25.000.000	
Active partner B	25.000.000	
Sleeping partners' subscription account		50.000.000
Sleeping partner C	15.000.000	
Sleeping partner D	15.000.000	
Sleeping partner E	10.000.000	
Sleeping partner F	10.000.000	

MARMARA ÜNİVERSİTESİ İKTİSADİ VE İDARİ BİLİMLER FAKÜLTESİ

BEGINNING BALANCE SHEET

Assets		Liabilities and partners' Equity	
Cash	100.000.000	Active partners' capital account	100.000.000
Active partners' capital subscriptions	50.000.000	Sleeping partners' capital account	100.000.000
Sleeping partners' capital subscriptions	50.000.000		
	200.000.000		200.000.000

Active partners must be real persons; legal entities may only be sleeping partners and in addition, sleeping partners cannot put forth either their personal effort or their commercial reputation as capital in the firm.

421. CHANGES IN THE CAPITAL OF LIMITED PARTNERSHIPS AND THEIR LIQUIDATION

For the most part, changes in the capital of a limited partnership and the partnersihp's liquidation are similar to the situation in general partnerships, the only difference being that it is necessary to make a distinction between the two types of partners. For this reason, we need not repeat our discussion of general partnerships here.

422. DISTRIBUTION OF PROFIT AND TAXATION

Profits in limited partnerships are distributed in accordance with their articles of association and in general, procedures are like those in the case of general partnerships.

EXAMPLE:

Let us suppose that the partners in a limited partnership have put up capital as indicated below and that the company has shown a profit of TL 100.000.000 for the year. This amount would be distributed in proportion to the partners' shareholdings.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Active partner A's capital:	50.000.000
Sleeping partner A's capital	75.000.000
Sleeping partner B's capital	125.000.000
	250.000.000
Active partner A's profit	20.000.000
Sleeping partner B's profit	30.000.000
Sleeping partner C's profit	50.000.000
	100.000.000

The journal entries would be like this:

Profit / loss account	100.000.000	
Active partner A current accouut		20.000.00
Sleeping partner B current account		30.000.000
Sleeping partner C current account		50.000.000
Active partner A current account	20.000.000	
Sleeping partner B current account	30.000.000	
Sleeping partner C current account	50.000.000	
Cash		100.000.000

As in the case of general partnerships no taxes are levied in the name of the company as such, because limited partnerships are not subject to corporation tax.

Active partners will declare the amount of profit they obtain from the company in their individual income tax declarations as commerical earnings. No deductions shall be made by the company from the profit shares distributed.

Sleeping partners will declare the amount of profit they obtain from the company in their individual income tax declarations as earnings from movable capital. Therefore there will be no withholdings from those earnings.

43 ACCOUNTING FOR JOINT STOCK COMPANIES (CORPORATIONS)

Joint - stock companies are probably the most common type of capital firm today. In these companies, the liabilities of individual shareholders are limited to the amount of capital they have put into the firm. Under Turkish commercial law, at least five persons are necessary to incorporate a joint-stock company and its stated capital cannot be less than TL 500.000. The documents that represent the company's capital are called "stock certificates" and the minimum value of a single share is TL 500.

430 GENERAL INFORMATION CONCERNING STOCK CERTIFICATES

MARMARA ÜNİVERSİTESİ YAYINEVİ

Stock certificates are types of instruments that are issued to represent equal shares of a company's capital. Among commercial enterprises, only joint-stock companies are allowed to issue shares although in some cases, partnerships limited by shares and cooperatives may issue shares as well. Each stock certificate is evidence of ownership in a company. Article 413 of the Turkish Commercial Code stipulates that stock certificates must contain.

- the company's trade name
- the date of the company's incorporation
- the amount of company's capital and the nominal value of every share
- the type of stock the certificate represents
- the signatures of at least two persons entitled to sign on behalf of the company

Let us suppose that a joint - stock company with capital in the amount of TL 50.000.000.000 has divided its capital into 50.000.000 shares each with a par value of TL 1.000. Someone owning even a single one of these shares would be a stockholder in the company. A stockholder's interest in a company is determined by the number of shares he holds. In our example, a person who owned 5.000 of these shares would have a 5.000 / 50.000.000 or 0.0001 % interest in the firm.

Types of stock certificates

Stock certificates are usually divided into two groups: registered stock certificates and bearer stock certificates.

Registered stock certificates: These contain the full name and address of the owner. Joint - stock companies have a share register, a book whose purpose is to keep track of who the company's shares are owned by. This register contains the full names and addresses of the stockholders as well as the number of shares each holds and the certificates' serial numbers. A joint-stock company can only issue registered stock if its share capital has not yet been fully paid in. Registered stock can be transferred by endorsement.

Bearer stock certificates: These instruments are not recorded in the company's share register and may change hands without entailing any formalities at all.

Stock in kind certificates: When a joint - stock company is formed, part of its capital may be put up in the form of real properties such as goods, buildings, etc. These are stock certificates that are issued specifically against such capital in kind.

Preferred stock certificates: The articles of incorporation of a joint - stock company may stipulate that certain of its stockholders enjoy certain privileges such as in the distribution of dividends or in the case of the liquidation of the company's assets or in other matters.Preferred stockholders for example might be entitled to a 5 % share of the company's profits before dividends are paid to the other shareholders.

Redeemable stock certificates: Under the terms of a company's articles of incorporation the general assembly of stockholders may decide to issue redeemable stock to the company's stockholders, creditors, or incorporators. (Redeemable stock cannot be issued to incorporators however unless provision for this is made in the original articles of incorporation.) Redeemable stock is usually issued for some special purpose and is redeemed by the company within a specified period of time.

This redemption may take place in two ways:

- A portion corresponding to a specific percentage of the share capital is shared among the stockholders every year until the value of these stock certificates has been fully paid.

- Each year lots are drawn among the outstanding stock certificates and the value of these is paid.

Under present tax law, the income from stocks is not taxable in any way.

431 FORMATION; INSTANTANEOUS FORMATION AND GRADUAL FORMATION

Joint - stock companies may be formed in two ways that are referred to as "instantaneous" and "gradual".

Instantaneous incorporation requires that at least five persons come together, prepare and sign a contract (the company's articles of incorporation), and have it notarized. The agreement must stipulate that the entire amount of company capital has been subscribed to. One - fourth of that amount must be placed in a blocked account with a reputable bank and a document must be signed to the effect that this money will not be withdrawn before the company has been duly registered and announced. After these procedures have been completed, application is then made to the Ministry of Trade for permission to incorporate the firm. Having obtained ministry authorization, the incorporators then petition a commercial court to have their company registered. After the court's ratification, the company is registered with the commercial registry and announced in the Commercial Registry Gazette.

EXAMPLE:

X Inc was founded by five incorporators with a capital of TL 5.000.000.000. The company's capital is divided into 5.000.000 shares, each with a par value of TL 1.000. Each of the five incorporators has pledged to purchase a million shares. A quarter of the capital has been deposited in Z Bank. In addition, expenses worth TL 92.000.000 were incurred in the incorporation of the firm.

The journal entries would look like this:

Stock certificates	5.000.000.000	
Capital		5.000.000.000
Stockholders	5.000.000.000	
Stockholder A (1.000.000 shares TL 1.000)	1.000.000.000	
Stockholder B (1.000.000 shares TL 1.000)	1.000.000.000	
Stockholder C (1.000.000 shares TL 1.000)	1.000.000.000	
Stockholder D (1.000.000 shares TL 1.000)	1.000.000.000	
Stockholder E (1.000.000 shares TL 1.000)	1.000.000.000	
Stock certificates		5.000.000.000
Z Bank	1.250.000.000	
Stockholders		1.250.000.000
Stockholder A (quarter subscription)	250.000.000	
Stockholder B (quarter subscription)	250.000.000	
Stockholder C (quarter subscription)	250.000.000	
Stockholder D (quarter subscription)	250.000.000	
Stockholder E (quarter subscription)	250.000.000	
Capital subscription receivable	3.750.000.000	
Stockholders		3.750.000.000
Stockholder A	750.000.000	
Stockholder B	750.000.000	
Stockholder C	750.000.000	
Stockholder D	750.000.000	
Stockholder E	750.000.000	
Organization expenses	92.000.000	
Z Bank		92.000.000

Stock certificates	
5.000.000.000	5.000.000.000

Capital	
	5.000.000.000

Z Bank	
3.750.000.000	92.000.000

Stockholder	
5.000.000.000	1.250.000.000
	3.750.000.000
5.000.000.000	5.000.000.000

Organization expenses	
92.000.000	

Capital Subscription Receivable	
3.750.000.000	

BEGINNING BALANCE SHEET FOR X INC

Assets		Liabilities and Owners' Equity	
Capital Subscription Receivable	3.750.000.000	Capital	5.000.000.000
Z Bank	1.158.000.000		
Organization expenses	92.000.000		
	5.000.000.000		5.000.000.000

Gradual formation of a joint - stock company takes place in four stages:

- Authorization
- Subscription
- Incorporating general assembly
- Registration and announcement

Authorization: Again at least five incorporators prepare the company's articles of incorporation, sign them, and have them notarized. They then apply to the Ministry of Trade for authorization, presenting documents indicating that 10 % of the capital specified in the articles of incorporation will be paid by themselves.

Subscription: After having obtained the required authorization, the founders make an announcement inviting the public to contribute to the company's capital. Those wishing to do so, fill out and sign two copies of a subscription form

that indicates the amounts of stock being subscribed to. The subscriber must deposit one - fourth of his subscription with a reputable bank.

Incorporating general assembly: After the company's share capital has been entirely subscribed to and a quarter of it has been paid in, the founders summon the stockholders to convene within ten days.

Registration and announcement: After the incorporating of general assembly, a petition is made to court for the ratification of the company after which the company is duly registered and announced.

EXAMPLE:

Let us suppose that X Inc, consisting of five original incorporators, has set its capital at TL 50.000.000.000. This capital is divided into 50.000.000 shares each with a par value of TL 1.000. Each of the founders has deposited a tenth of this capital with Z Bank. Having obtained the authorization of the Ministry of trade, TL 5.000.000.000 worth of the outstanding shares worth TL 45.000.000.000 were sold from the company's headquarters. Of this remainder, half (worth TL 20.000.000.000) were sent to Z Bank and the other half were sent to Y Bank for sale. The banks sold off the entire issue, for which service they charged a commission of 0.04 % TL. 300.000.000 (organization expense) were paid from Y Bank.

Stock certificates		50.000.000.000	
	Capital		50.000.000.000
Stockholders		5.000.000.000	
Stockholder A 1.000.000.000			
Stockholder B 1.000.000.000			
Stockholder C 1.000.000.000			
Stockholder D 1.000.000.000			
Stockholder E 1.000.000.000			
	Stock certificates		5.000.000.000
Z Bank		5.000.000.000	
	Stockholders		5.000.000.000
	Stockholder A 1.000.000.000		
	Stockholder B 1.000.000.000		
	Stockholder C 1.000.000.000		
	Stockholder D 1.000.000.000		
	Stockholder E 1.000.000.000		

Stockholders		5.000.000.000	
	Stock certificates		5.000.000.000
Z Bank		1.250.000.000	
	Stockholders		1.250.000.000
Transitory account		40.000.000.000	
Stock certificates given to Y Bank: 20.000.000			
Stock certificates given to Z Bank: 20.000.000			
	Stock certificates		40.000.000.000
Stockholders		40.000.000.000	
	Transitory account		40.000.000.000
	Stock certificates given to Y Bank: 20.000.000		
	Stock certificates given to Z Bank: 20.000.000		
Z Bank		5.000.000.000	
Y Bank		5.000.000.000	
	Stockholders		10.000.000.000
Organization expenses		160.000.000	
	Y Bank		80.000.000
	Z Bank		80.000.000
Capital subscription receivable		33.750.000.000	
	Stockholders		33.750.000.000
Organization expenses		300.000.000	
	Y Bank		300.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

BEGINNING BALANCE SHEET

Assets		Liabilities and owners' Equity	
Capital Subscription Receivable		Capital	50.000.000.000
Y Bank	33.750.000.000		
Z Bank	4.620.000.000		
Organization expenses	11.170.000.000		
	460.000.000		
	50.000.000.000		50.000.000.000

Non - cash capital: (Capital in kind)

It may happen that some of the incorporators will put up real properties (goods, buildings, rights, etc.) rather than cash as their share of the company's capital. Let us assume for example that five incorporators undertake the gradual formation of X Inc. Its capital is to be TL 5.000.000.000, which is divided into 10.000.000 shares each with a par value of TL 500. The incorporates have put up one - tenth of their capital subscriptons in the following ways:

Stockholder	A : goods worth TL 100.000.000
Stockholder	B : machinery worth TL 100.000.000
Stockholder	C : stocks and bonds worth TL 100.000.000
Stockholder	D : TL 100.000.000 in cash
Stockholder	E : TL 100.000.000 in cash

The ministry has given its approval for the establishment of the company and during the subscription stage, TL 500.000.000 worth of its stock issue (totalling TL 4.500.000.000) was sold by the company headquarters while the remaining TL 4.000.000.000 worth was sold to Z and Y banks at a commission fee of TL 2 a share. The company also incurred TL 180.000.000 as organization expenses, from Y Bank. The journal entries would be as follows:

Stock in kind certificates	300.000.000	
Stock certificates	4.700.000.000	
Capital		5.000.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Stock in kind stockholders		300.000.000	
A : 100.000.000			
B : 100.000.000			
C : 100.000.000			
Stockholders			
D : 100.000.000		200.000.000	
E : 100.000.000			
	Stock in kind certificates		300.000.000
	Stock certificates		200.000.000
Goods		100.000.000	
Machinery		100.000.000	
Stock and bonds		100.000.000	
	Stock in kind stockholders		300.000.000
	A : 100.000.000		
	B : 100.000.000		
	C : 100.000.000		
Banks		200.000.000	
Z Bank			
	Stockholders		200.000.000
	D : 100.000.000		
	E : 100.000.000		
Stockholders		500.000.000	
	Stock certificates		500.000.000
Banks		125.000.000	
Y Bank			
	Stockholders		125.000.000
Transitory account		4.000.000.000	
Stocks given to			
Z Bank : 2.000.000.000			
Stocks given to			
Y Bank: 2.000.000.000			
	Stock certificates		4.000.000.000

Stockholders		4.000.000.000	
	Transitory account		4.000.000.000
	Stocks given to Z Bank : 2.000.000.000 Stocks given to Y Bank : 2.000.000.000		
Banks Z Bank : 500.000.000 Y Bank : 500.000.000		1.000.000.000	
	Stockholders		1.000.000.000
Organization expenses		16.000.000	
	Banks Z Bank : 8.000.000 Y Bank : 8.000.000		16.000.000
Organization expenses		180.000.000	
	Banks Y Bank		180.000.000
Capital subscription		3.375.000.000	
	Stockholders		3.375.000.000

BEGINNING BALANCE SHEET

Assets		Liabilities and Owners' Equity	
Capital Subscription	3.375.000.000	Capital	5.000.000.000
Banks	1.129.000.000		
Stocks and bonds	100.000.000		
Goods	100.000.000		
Machinery	100.000.000		
Organization expenses	196.000.000		
	5.000.000.000		5.000.000.000

432 INCREASE OF CAPITAL

MARMARA ÜNİVERSİTESİ YAYINEVİ

Joint - stock companies may increase their capital in a number of ways.

Increasing a company's capital by means of a new stock issue:

Suppose a company with a registered capital of TL 12.500.000.000 decides to issue new stock in order to raise the amount for TL 2.500.000.000.000. The journal entries would be as follows:

Stock certificates		2.500.000.000	
	Capital		2.500.000.000
Stockholders		2.500.000.000	
	Stock certificates		2.500.000.000
Z Bank		625.000.000	
	Stockholders		625.000.000

Increasing a company's capital by issuing stock certificates with a premium value higher than their face value:

Assume that X Inc raises its capital TL 2.000.000.000 and sells its stocks (which have a face value of TL 1.000) for TL 1.100.

Stock certificates		2.000.000.000	
	Capital		2.000.000.000
Stockholders		2.200.000.000	
	Stock certificates		2.000.000.000
	Extraordinary reserve		200.000.000

Increasing a company's capital by adding capital in kind:

X Inc decides to increase its registered capital TL 500.000.000 by accepting the following real properties belonging to two persons called "A" and "B", in return for which they receive shares in the company.

Stockholder A : TL 250.000.000 worth of goods
Stockholder B : TL 200.000.000 worth of buildings
Stockholder B : TL 50.000.000 worth of machinery

Stock in kind certificates		500.000.000	
	Capital		500.000.000
Stock in kind stockholders		500.000.000	
	Stock in kind certificates		500.000.000
Goods		250.000.000	
Buildings		200.000.000	
Machinery		50.000.000	
	Stock in kind stockholders		500.000.000

Increasing a company's capital by means of the company's reserves:

It is possible in some cases for reserve funds that a company has set aside to be added to the company's capital. Assume for example that a company has a declared capital of TL 5.000.000.000 but it also has TL 2.000,000.000 sitting in an optional (that is, not legally required) reserve fund. At a general meeting, the stockholders decide to add TL 1.000.000.000 of this reserve to the company's capital and issue new stock certificates in that amount against it. (The stock issued against such a reserve would be distributed free of charge to the existing stockholders.)

Stock certificates		1.000.000.000	
	Capital		1.000.000.000
Stockholders		1.000.000.000	
	Stock certificates		1.000.000.000
Optional reserve fund		1.000.000.000	
	Stockholders		1.000.000.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Converting the company's debts to capital:

Assume that X Inc has capital worth TL 5.000.000.000 and it owes a number of people a total of TL 1.000.000.000. The creditors have asked that their claims be converted to capital and this is agreed to by a general meeting.

Stock certificates		1.000.000.000	
	Capital		1.000.000.000
Stockholders		1.000.000.000	
	Stock certificates		1.000.000.000
Accounts payable		1.000.000.000	
	Stockholders		1.000.000.000

Converting founder's shares to capital:

Founder's shares (also called "promoter's stock") are shares that are given free of charge to a company's incorporators and to other individuals who may have been helpful in the establishment of a company. They are also sometimes given as a premium to persons who purchase more than a set amount of stock in a company. Such shares have no claims over the company's capital: they merely entitle the holder to a share of the company's profits.

Let us suppose that a company whose capital is worth TL 10.000.000.000 has extraordinary reserves worth TL 5.000.000.000 and that at one time it issued founder's shares worth TL 500.000.000. The company's general assembly of stockholders decides that these founders' shares are to be replaced with ordinary stock certificates in return for a TL 500.000.000 increase in the company's capital.

Stock certificates		500.000.000	
	Capital		500.000.000
Stockholders		500.000.000	
	Stock certificates		500.000.000
Founders' shares		500.000.000	
	Stockholders		500.000.000
Extraordinary reserve fund		500.000.000	
	Founders' shares		500.000.000

433 DECREASE OF CAPITAL

Joint - stock companies may decide to reduce the amount of their capital for the following reasons:

- The amount of capital may be too great for the company's volume of business.

- The company incurs a serious loss and it may be decided that it can only be covered by liquidating part of the capital.

- It is noticed that some of the company's capital assets are no longer worth what they once were.

Capital is reduced in the following way.

If the company's capital is entirely paid up:

- The company refunds an amount of money and exchanges its old stock certificates for new ones with a lower face value.

- The amount of some of the stock certificates is paid to the stockholders by drawing lots.

- The company purchases its own shares off the stock exchange and destroys them.

If the company's capital is not entirely paid up:

- Stock certificates that have not been entirely paid for may be exchanged for new ones that are regarded as paid for.

If a major loss is incurred:

- Old stock certificates may be replaced with new ones with a lower value without any money changing hands.

- New shares of stock with the same face value may be issued against several old shares.

EXAMPLE:

X Inc's capital is TL 5.000.000 consisting of 5.000 shares worth TL 1.000 each. Half the company's capital has been paid up and the company decides that this amount is sufficient to meet its needs. It therefore issues new shares worth TL 1.000 each in return for two old shares (for each share TL 500 has been paid) thus reducing the number of shares and the company's capital by half. (Note that the face value of the stocks did not change.)

Capital		2.500.000
	Unpaid capital (capital subscription)	2.500.000

MARMARA ÜNİVERSİTESİ İLAHİYAT FAKÜLTESİ

EXAMPLE:

X Inc's capital is worth TL 2.000.000 and consists of 2.000 shares worth TL 1.000 each. Half of the company's capital has been paid up. The company decides to print up new certificates worth TL 500 each and replaces the old shares with these one for one. In this case, the number of stock shares remains constant (2.000).

Capital		1.000.000
	Unpaid capital (capital subscription)	1.000.000

EXAMPLE:

X Inc's capital is TL 10.000.000 and consists of 10.000 shares worth TL 1.000 each. The company's general assembly of stockholders decides to decrease the registered capital to TL 5.000.000 by reducing the nominal value of each share to TL 500. Not all of the 10.000 shares however were fully paid for:

2.000 shares were fully paid up.

3.500 shares were only 1/4 paid.

4.500 shares were only 1/2 paid.

Thus the amount of capital actually paid in by the stockholders is:

2.000 shares at 100 % (TL 1.000) =	TL	2.000.000
3.500 shares at 25 % (TL 250) =		875.000
4.500 shares at 50 % (TL 500) =		2.250.000
	TL	5.125.000

And the amount of unpaid capital is:

3.500 shares at 75 % (TL 750) =	TL	2.625.000
4.500 shares at 50 % (TL 500) =		2.250.000
	TL	4.875.000

The capital account has been credited with the amount of TL 10.000.000 while the stockholders account has been debited with the amount of TL 4.875.000.

Under these conditions, TL 1.000.000 will be repaid for the 2.000 fully-paid hares at TL 500 each, while TL 875.000 will be collected from 3.500 stockholders TL 250 a share.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Stockholders		1.000.000	
	Cash		1.000.000
Cash		1.000.000	
	Stockholders		1.000.000
Capital		5.000.000	
	Stockholders		5.000.000

EXAMPLE:

X Inc's capital is worth TL 10.000.000 and the company decides to reduce this to TL 8.000.000 by purchasing stock off the market. While the stock has a face value of TL 1.000, the company has to pay TL 1.100 a share to repurchase them.

Stock purchases		2.200.000	
	Cash		2.200.000
Capital		2.000.000	
	Stock purchases		2.000.000
Profit / loss		200.000	
	Stock purchases		200.000

(It is also possible that the stock might be purchased at a price below par, in which case the difference would be profit.)

EXAMPLE:

X Inc's capital is TL 2.500.000. As a result of a fire, properties originally worth TL 1.000.000 are now worth only TL 500.000.

Capital		500.000	
	Real estate		500.000

With the exception of certain stipulations made in the commercial code (intended to protect the interests of the stockholders and / or of the company), the profits of joint - stock companies are distributed according to the terms of their articles of incorporation. The requirements that the commercial code makes concerning profit distributions are the following:

Legal reserve equal to 5 % of the year's net profit:

This is known as a "primary legal reserve". It is normally set aside until the amount in the reserve reaches 20 % of the company's paid - in capital and once that amount has been reached, no more reserve is set aside for this account. Legal reserves are usually set aside to strengthen a company's financial structure and are intended to be used to cover losses. Thus the reserve requirement is designed to protect the company.

Secondary legal reserve:

A second obligation made by the commercial code is that if the general assembly decides to distribute a dividend to the stockholders, 10 % of it must be set aside in a secondary reserve fund. The law does not place any ceiling on the amount that may accumulate in this reserve.

First dividend:

If a company has shown a profit, its general assembly cannot decide that the entire amount be retained within the company and placed in reserves: the law requires that an amount equal to at least 5 % of the paid - in capital be distributed as a first dividend to the stockholders. This provision is intended to protect the interests of the stockholders by ensuring that a minimum amount of the company's profits are distributed.

Second dividend:

This is a dividend that the general assembly decides to distribute over and above the first, legally - required dividend.

In addition to the statutorily required reserves, companies may set other reserves aside as well. These are called optional or extraordinary reserve funds. Articles of incorporation may impose certain requirements on the distribution of dividends and in addition, a meeting of the general assembly of stockholders may decide that dividends have to be distributed in ways not specified in their articles of incorporation.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Taxing joint - stock companies:

Joint - stock companies are subject to the corporate tax (currently at the rate of 46 % of net profit.) In addition, these companies also have to pay a surcharge of 5 % of their corporate tax liability to the Defense Industry Support Fund, 1 % of it to the Apprenticeship Fund, and another 1 % to the Social Mutual Asistance and Solidarity Fund. The dividends that a company's stockholders receive are not taxed in any way.

As is the case with other businesses, a joint - stock company's gross profit is determined by comparing its net worth at the beginning of the tax period with that at the end:

Assets	BALANCE SHEET AS OF JANUARY 1, 1990	Liabilities and owners' equity	
Capital Subscription	5.000.000	Capital	10.000.000
Cash	415.000	Legal reserves	2.000.000
Banks	1.450.000	Profit	4.560.000
Goods	6.500.000	Accounts Payable	2.350.000
Accounts receivable	2.500.000	Notes Payable	1.800.000
Notes receivable	3.750.000	Other Payables	1.500.000
Doubtful accounts	450.000	Allowance for doubtful accounts	450.000
Other receivables	2.120.000	Acc. depreciation	225.000
Fixed assets	700.000		
	22.885.000		22.885.000

Assets	BEGINNING SHEET AS OF DECEMBER 31, 1990	Liabilities and Owners' Equity	
Capital Subscription receivable	5.000.000	Capital	10.000.000
Cash	515.000	Legal reserves	3.000.000
Banks	1.950.000	Profit	5.250.000
Goods	6.850.000	Accounts Payable	1.580.000
Accounts receivable	2.750.000	Notes Payable	2.950.000
Notes receivable	3.850.000	Other Payables	1.600.000
Doubtful accounts	600.000	Allowance for doubtful accounts	600.000
Other receivables	2.320.000	Acc. depreciation	555.000
Fixed assets	1.700.000		
	25.535.000		25.535.000

MARMARA ÜNİVERSİTESİ YAYINEVİ

Ending balance sheet net worth:

Total assets		25.535.000
Liabilities		
Accounts Payable	1.580.000	
Notes Payable	2.950.000	
Other Payables	1.600.000	
		6.130.000
Contra assets accounts		
Allowance for doubtful accounts	600.000	
Accumulated depreciation	555.000	
		1.155.000
		18.250.000

Opening balance sheet net worth:

Total assets		22.885.000
Liabilities		
Accounts Payable	2.350.000	
Notes Payable	1.800.000	
Other Payables	1.500.000	
		5.650.000
Contra assets accounts		
Allowance for doubtful accounts	450.000	
Accumulated depreciation	225.000	
		675.000
		16.560.000

On this basis, the difference in the company's net worth is (18.250.000 - 16.560.000) TL 1.690.000.

In addition, the amount of TL 3.560.000 was withdrawn from the enterprise during the year and this has to be added to the difference between the beginning and end - of - year net worth values. Thus the company's commercial earnings for the year amount to (1.690.000 + 3.560.000) TL 5.250.000.

In order to determine the company's fiscal profit, non-deductible expenses must be added to its commercial profit while deductible revenues must be subtracted. Let us assume that the company incurred TL 420.000 of non-deductible expenses and TL 600.000 of deductible revenues. Let us also assume that at their general meeting, the stockholders decided that TL 1.000.000 should be distributed as a second dividend.

Commercial Profit		5.250.000
Non-deductible expenses		420.000
		5.670.000
Deductible revenues		600.000
Basis for corporate tax assessment		5.070.000
Corporate tax	2.332.200	
Defense Industry Support Fund	116.610	
Apprenticeship Fund	23.322	
Social Mutual Assistance and Solidarity Fund	23.322	

MARMARA ÜNİVERSİTESİ YAYINEVİ

After the corporate tax and other deductions indicated above have been subtracted from the company's commercial earnings, the balance will be dealt with in accordance with decisions made at the general assembly of stockholders and with the provisions of the Turkish Commercial Code.

First of all 5 % (TL 262.500) of the gross profit (TL 5.250.000) is set aside as a primary legal reserve.

As the balance sheet indicates, the stockholders have paid in TL 5.000.000 of the company's capital. Since an amount equal to 5 % of this will be distributed to the stockholders as a first dividend, (5.000.000 X 0.05) TL 250.000 also has to be subtracted from this figure.

Since the stockholders at their general meeting decided to distribute TL 1.000.000 as a second dividend, that too has to be subtracted from the profit and credited to the stockholders' dividend account.

10 % of the amount distributed as a second dividend (1.000.000 X 0.10) or TL 100.000 has to be subtracted as a secondary legal reserve.

The remaining balance of TL1.142.046 is set aside as an extraordinary reserve fund.

As the above shows, the company's business profit of TL 2.754.546 remaining after the corporate tax and other obigations have been deducted is entirely eliminated through its distribution in the form of primary and secondary legal reserves, first and second dividends, and extraordinary reserves. Here is the journal entry:

Profit / loss	5.250.000	
Corporate tax payable		2.332.000
Defense Industry Support Fund payable		166.610
Apprenticeship Fund payable		23.322
Social Mutual Assistance and Solidarity Fund payable		23.322
Legal reserves		1.504.546
Primary legal reserve	262.500	
Secondary legal reserve	100.000	
Extraordinary reserve	1.142.046	
Dividends payable		1.250.000
First dividend	250.000	
Second dividend	1.000.000	

435 ACCOUNTING RECORDS CONCERNING THE ISSUANCE OF CORPORATE BONDS

While bonds are a form of debenture that are issued by states and corporations (joint - stock companies) in order to borrow money, we shall be limiting our discussion here to corporate bonds.

The nominal values of a single issue of corporate bonds must all be the same as must the wording that the bonds contain. The total value of bonds issued by a joint - stock company cannot exceed the value of its paid - in capital. A decision authorizing a bond issue must be passed by the company's general assembly and this resolution must be duly registered and announced. Once a series of bonds has been issued, no new issuances may be made so long as there are any bonds from the previous issue that remain unsold and / or unpaid for. When a company's board of directors wishes to notify the public of a bond issue, it must do so in the form of a published prospectus that contains the following information:

- The company's legal name, business activity, headquarters, and duration;

- The amount of its principal capital;

- The date of its original articles of incorporation and, if any amendments have been made in them, the dates of the amendments and the dates on which they were announced;

- The company's position according to the company's most recent certified balance sheet;

- The total of the bonds' face value; the manner in which the value of these bonds is to be paid to the company; the amount of interest that will be paid on the nominal value of each bond; a statement as to whether the bonds are to be registered in the owner's name or else are bearer instruments; the manner and time in which the bonds are to be redeemed;

- The date on which the general assembly's resolution authorizing the bond issue was registered and announced;

- The company's movable or immovable properties. (If any of the company's movable or immovable properties have been pledged or otherwise put up as security against previously - issued bonds or for any other reason, this needs to be indicated.)

Such prospectuses must be published and announced at least fifteen days before the bonds are placed on the market.

In addition to the information that must be included in the prospectus, the bonds themselves must contain statements as to the ways in which their principal and interest is to be repaid and if there is a redemption schedule, that must be indicated. Bonds must be signed by at least two persons authorized to represent the company with their signature. (This "signature" may be in the form of a seal and may even be printed on the bond.) In the case of registered bonds, the company must keep a special register of information about the owners.

Joint - stock companies whose capital is insufficient to properly conduct their business are sometimes forced either to increase their capital or else go into debt in order to cover their financing deficits. If the financing difficulties are only temporary however, it usually does not make sense to make a new stock issue as this means dividing the company's profits among a wider group of stockholders. Thus a company will often prefer to cover its financing deficits by issuing bonds that are to be repaid over some particular period of time rather than acquire a host of new stockholders. Persons holding the instruments that corporations have issued to borrow money on condition that they are to be repaid within a specific period of time and a particular amount of interest is to be paid have the status of the company's creditors. In the event the company goes bankrupt, these bondholders have first claim to repayment and only after that (if anything is left) payment will be made to the stockholders. Bondholders have no right to participate in meetings of the general assembly of stockholders. While the dividends from stocks may vary, the return on bonds is generally fixed with the bondholder receiving a specified amount of interest every year.

ACCOUNTING FOR BOND ISSUES

The accounts indicated below are used for bond issues.

The **bonds payable account** shows the total value of indentured debts undertaken by the company.

MARMARA ÜNİVERSİTESİ YAYINEVİ

The Bonds account (debentures) shows the value of bonds that were printed up for sale and are still on hand. (This is the first entry to be made when debentures are issued.)

Bonds account

Bonds payable account

The **bondholders' account** is in the nature of a subscription account for these obligations. When a subscription is made to assume an obligation, the following entry is made.

Bondholders

Bonds account

When payment is made by the obligators, the account is closed out as follows:

Cash (or Banks) account

Bondholders account

Bond issue expenses account: When bonds are issued, a number of expenses are incurred that are related to the issuance. These outlays are debited to the bonds issue expenses account. Such expenses are generally incurred in the form of announcements concerning the issuance, stamp outlays, the cost of printing up the instruments, and the sales commissions paid to banks. The following entry is made:

Bonds issue expenses account

Cash (or Banks) account

Bond issue losses: It is assumed in entries concerned with issuances that these instruments are always issued at par in other words, that they are sold at the nominal value declared on them. In practice, bonds may be sold at a price that is less than their face value and when they mature, they are repaid for their nominal value. The difference between the two prices is considered a loss for the issuing company. The account used for these losses is called the bond issue losses account. Let us suppose that a bond with a value of TL 1.000 is sold for TL 950. The journal entry would look like this:

MARMARA ÜNİVERSİTESİ YAYINEVİ

Bondholders account	950	
Bond issue losses account	50	
Bonds account		1.000

Bond issue premiums: It sometimes happens that bonds are offered for sale at a price that is higher than their face value in which case the difference between the selling price and the price the bondholder undertakes to pay is credited to the bond issue premiums account. This time let us suppose that a bond with a nominal value of TL 1.000 is sold for TL 1.050. The journal entry would look like this:

Bondholders account	1.050	
Bonds account		1.000
Bond issue premiums account		50

Bonds in subscription account: As is the case with stock shares, bonds may be sold directly by a company's headquarters but as a rule we see that banks are employed as brokers.On account of the service it provides in the marketing of bonds, the bank will demand a commmission from the company for the sale. In cases where the bonds issued by a company are marketed through a bank, the instruments that the company turns over to the bank are debited to the bonds in subscription account:

Bonds in subscription account		
Bonds account		

As the bank declares which bonds have been sold, they are credited to this account and debited to bondholders account

Bondholders account		
Bonds in subscription		

Bonds may be issued and sold under the following conditions:

- At par
- At a price below the nominal value of the insturment on condition of repayment at a price equal to the nominal value at maturity
- At a price higher than the nominal value of the instrument on condition of repayment at a price equal to the nominal value at maturity.
- With the payment part of the value of the issue to a bank as its commission
- At a price below nominal value on condition off repayment at a price higher than nominal value

Here is an example of entries concerning bond issues.

X Inc issues 1.000.000 bonds with a face value of TL 1.000 and a promise to pay interest at the rate of 70 %. The bonds are sold at a price that is 50 liras less than their face value. Z Bank negotiates the sale of the issue and it receives a commission of 5 % for this. The company pays TL 15.000.000 as an issue expense. The entire issue of bonds is sold.

The journal entries are as follows:

Bonds account		1.000.000.000	
	Bonds payable account		1.000.000.000
Bonds in subscription account (Bonds held by Z Bank)		1.000.000.000	
	Bonds account		1.000.000.000
Bonds issue expenses account		15.000.000	
	Cash account		15.000.000
Bondholders account		950.000.000	
Bond issue losses account		50.000.000	
	Bonds in subcription account		1.000.000.000
Z Bank account		950.000.000	
	Bondholders account		950.000.000
Bonds issue expenses account		47.500.000	
	Z Bank account		47.500.000

THE REDEMPTION OR AMORTIZATION OF BONDS

The redemption of bonds issued by a company takes place in accordance with a resolution passed by the company's general assembly under article 464 of the Commercial Code. The amounts necessary for the repayment of the company's bonds payable and for the interest on such debts may be taken from the company's current assets in which case the company's current assets are diminished to the degree that a reduction takes place in its liability - side bonds payable.

It is also possible for bonds payable to be serviced by means of its amortization through the setting aside of a certain amount of profits each year in a sinking fund. This has the effect of increasing the company's assets (inasmuch as the current assets account is not diminished) and also creates a new reserve fund on the liability side of the balance sheet.

As a rule, bonds are redeemed in equal lots each year, with the bonds to be redeemed being chosen by lot. In the case, for example, of an issue of bonds that are to

be redeemed over a period of five years, on-fifth of them would be paid off in the first year and the instruments that happened to fall in that lot would receive only a single year's interest plus principal as payment.

The following is an example of an amortization schedule for an issuance of 5-year bonds against which a total of TL 10.000.000.000 was borrowed and which bear interest at the rate of 60 % a year:

Year	Principal	Interest	Total
1991	2.000.000.000	6.000.000.000	8.000.000.000
1992	2.000.000.000	4.800.000.000	6.800.000.000
1993	2.000.000.000	3.600.000.000	5.600.000.000
1994	2.000.000.000	2.400.000.000	4.400.000.000
1995	2.000.000.000	1.200.000.000	3.200.000.000
	10.000.000.000	18.000.000.000	28.000.000.000

If no amounts are set aside for the amortization of bonds payable, the following entries will be made for the repayment of one-fifth of the obligation plus interest each year:

1991

Bonds payable account	2.000.000.000	
Profit / loss account	6.000.000.000	
Cash account		8.000.000.000

436 DISSOLUTION AND LIQUIDATION

Dissolution means bringing the existence of a joint stock company to an end.

Conditions under which a joint stock company shall be dissolved are prescribed as follows in article 434 of the Turkish Commercial Code.

- Termination of the company period prescribed in the articles of incorporation.

- Accomplishment of the company objectives or company objectives to be rendered impossible to achieve.

- Loss of two thirds of the company's capital.

- Number of shareholders falling down below five.

- Legal action initiated against the company, by the creditors, in the event that two thirds of the company's capital is lost.

- Under the existence of conditions of dissolution prescribed by the articles of incorporation.

- Merger with another company.

- Insolvency of the company.

MARMARA ÜNİVERSİTESİ YAYINEVİ

- Resolution adopted by the general assembly for dissolution.

Liquidation (Liquidators, liquidation administrators)

Pursuant to Article 44 of the Turkish Commercial Code, liquidation transactions shall be undertaken by the board of directors, provided that no other liquidators are to be appointed according to the articles of incorporation or the general assembly resolution.

Liquidators shall be duly registered in the trade registry and announced by the board of directors. This is compulsory even under the conditions that the liquidation shall be carried out by the board of directors.

First thing to be done by the liquidators is to prepare the inventory book and the balance - sheet in order to determine the position of the company at the beginning of liquidation and submit them to the approval of the general assembly (Article 444, TTK).

Creditors recorded in the company books are notified with a registered letter, of the company liquidation, sent to their addresses written in the company records, by the liquidators. Notification of others whose addresses are not known shall be made with announcements in the newspapers (Article 445, TTK).

The other actions to be undertaken by the liquidators are given below;

- To conclude the current transactions of the company.

- Collection of unpaid company shares, if any.

- Conversion of company assets into cash.

- Payment of company debt, under the conditions that company debt does not exceed company assets.

- In the event that company debt exceeds company assets, to file a statement to the relevant court to this effect and demand the company declared bankrupt (Article 446, TTK).

- After the payment of company debt, to distribute the balance among the shareholders in proportion to the amount of capital they had paid (Article 447, TTK).

- It is compulsory to keep all books and documents for a period of 10 years after the liquidation.

- Upon the completion of the liquidation transactions, officers in charge, file an application with the trade registery for the writing off of the company name and an announcement shall be made to this effect (Article 449, TTK).

Following you will find an example concerning the accounting records in the process of liquidation of a joint stock company.

Example 1: The pre-liquidation Balance Sheet prepared by the liquidators is as follows:

Assets	Pre-liquidation Balance Sheet		Liabilities and owners' equity
Cash	1.300.000	Capital	1.000.000.000
Cash in Bank	9.200.000	Legal reserves	25.000.000
Organization Expenses	43.000.000	Accumulated Depreciation	40.000.000
Inventory	380.600.000	Accounts Payable	88.440.000
Fixed Assets	130.000.000		
Accounts receivable	35.880.000		
Loss	553.460.000		
	1.153.440.000		1.153.440.000

Transactions:

- 26.550.000 TL is collected from the customers.
- 50.000.000 TL is paid for liquidation officers.
- Fixed assets are sold for 85.000.000 TL.
- Goods are sold for 280.000.000 TL.
- Organization expenses are closed into Liquidation account

Journal Entries

1			
	Cash	1.300.000	
	Cash in bank	9.200.000	
	Organization expenses	43.000.000	
	Inventory	380.600.000	
	Fixed Assets	130.000.000	
	Accounts Receivable	35.880.000	
	Profit and Loss	553.460.000	
	Capital		1.000.000.000
	Legal Reserves		25.000.000
	Accumulated Depreciation		40.000.000
	Accounts Payable		88.440.000

2				
	Liquidation account		43.000.000	
		Organization Expenses		43.000.000
3				
	Cash		85.000.000	
	Accumulated Depreciation		40.000.000	
	Liquidation Account		5.000.000	
		Fixed Assets		130.000.000
4				
	Cash		306.550.000	
		Inventory		280.000.000
		Accounts Receivable		26.550.000
5				
	Liquidation Expenses		50.000.000	
		Cash		50.000.000
6				
	Accounts Payable		88.440.000	
		Cash		88.440.000
7				
	Liquidation account		109.930.000	
		Inventory		100.600.000
		Accounts Receivable		9.330.000
8				
	Liquidation account		553.460.000	
		Profit and Loss		553.460.000
9				
	Cash in Bank		254.410.000	
		Cash		254.410.000
10				
	Liquidation account		50.000.000	
		Liquidation Expenses		50.000.000

Ledger Accounts

Organization Expenses

1)	43.000.000	2)	43.000.000

Inventory

1)	380.600.000	4)	280.000.000
		7)	100.600.000
	380.600.000		380.600.000

Fixed Assets

1)	130.000.000	2)	130.000.000

Accounts Receivable

1)	35.880.000	4)	26.550.000
		7)	9.330.000
	35.880.000		35.880.000

Cash

1)	1.300.000	5)	50.000.000
3)	85.000.000	6)	88.440.000
4)	306.550.000	9)	254.410.000
	392.850.000		392.850.000

Cash in Bank

1)	9.200.000		
9)	254.410.000		
	263.610.000		

Profit and Loss

1)	553.460.000	8)	553.460.000

Capital

		1)	1.000.000.000

Legal Reserves

		1)	25.000.000

Accumulated Depreciaiton

3)	40.000.000	1)	40.000.000

Accounts Payable

6)	88.440.000	3)	88.440.000

Liquidation Expenses

5)	50.000.000	10)	50.000.000

Liquidation Account

2)	43.000.000		
3)	5.000.000		
7)	109.930.000		
8)	553.460.000		
10)	50.000.000		
	761.390.000		

İSTANBUL ÜNİVERSİTESİ YAYINEVİ

Post - liquidation Balance Sheet

Assets		Liabilities and owners' equity	
Liquidation Account	761.390.000	Capital	1.000.000.000
Cash in Bank	263.610.000	Legal reserves	25.000.000
	1.025.000.000		1.025.000.000

11	Legal Reserves			25.000.000	
		Capital			25.000.000
12	Capital			761.390.000	
		Liquidation Account			761.390.000
13	Capital			263.610.000	
		Stockholders			263.610.000

After posting the above transactions to the ledger 2 accounts wil remain: Cash in bank and stockholders.

Liquidation Account

2)	43.000.000	12)	761.390.000
3)	5.000.000		
7)	109.930.000		
8)	553.460.000		
10)	50.000.000		
	761.390.000		761.390.000

Capital

12)	761.390.000	1)	1.000.000.000
13)	263.610.000	11)	25.000.000
	1.025.000.000		1.025.000.000

Legal Reserves

11)	25.000.000	1)	25.000.000

Cash in Bank

1)	9.200.000		
9)	254.410.000		
	263.610.000		

Stockholders

		13)	263.610.000

At the end, TL 263.610.000 in the bank account constitute the receivable by the stockholders. In case the company capital comprised 1.000.000 shares, each would have 263.61 TL. In other words, each TL 1000 share would make 263.16 liras.

44 ACCOUNTING FOR PARTNERSHIP LIMITED BY SHARES

The ordinary limited partnership carry a major disadvantage, since silent (sleeping) partners do not hold share certificates, they cannot leave the company as and when they wish. When shares are issued by the partnership limited by shares, owners of small savings can participate, because shares can be freely sold.

To put in other words, in the partnership limited by shares, one or more of the partners have unlimited liability as in general partnerships, whereas a number of other partners are under liabilities limited to the amount of shares they hold, in the manner as in the joint stock companies. Company audit can only be undertaken by auditors chosen by the partners with unlimited liability (Article 484, TTK).

The partnership limited by shares will have, minimum five partners for incorporation. At least one of the founding partners will have unlimited liability. The total amount of shares held by founding partners which have limited liability will be written in the articles of incorporation (Article 479, TTK).

Obtaining the approval of the Ministry of Trade, as in the case of joint stock companies, is not compulsory in the setting up of partnership limited by shares (Article 477, TTK).

440 FORMATION, INSTANTANEOUS FORMATION, GRADUAL FORMATION

As in the case of joint stock companies, partnership limited by shares may be founded either instantaneously or gradually. In both instances, minimum five founding partners have to participate and at least one of the founding partners have to hold unlimited liability (active partner).

Example: Instantaneous formation

Capital of the Yalçın Akıncı and his Partners, Partnership limited by shares is TL 1.000.000.000. 500.000 shares are issued, each worth TL 1000. The partner with unlimited liability, Yalçın Akıncı, subscribes TL 500.000.000. The remaining TL 500.000.000 will be subscribed by other founding partners in the following manner.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Ali Tan	100.000.000
Ziya Bal	100.000.000
Hasan Gül	100.000.000
Murat Tamer	200.000.000

Journal Entries

1

Active Partner Yalçın Akıncı subscription		500.000.000	
Shares		500.000.000	
	Active Partner Yalçın Akıncı Capital		500.000.000
	Sleeping Partners holding shares capital		500.000.000

In the event that sleeping partners holding shares subscribe the total capital, the following will be applicable;

2

Sleeping Partners holding shares subscription		500.000.000	
Ali Tan	100.000.000		
Ziya Bal	100.000.000		
Hasan Gül	100.000.000		
Murat Tamer	200.000.000		
	Shares		500.000.000

3

'A' Bank		500.000.000	
	Active Partner Yalçın Akıncı Subscription		500.000.000

4

'A' Bank		500.000.000	
	Sleeping Partners holding shares subscription		500.000.000
	Ali Tan 100.000.000		
	Ziya Bal 100.000.000		
	Hasan Gül 100.000.000		
	Murat Tamer 200.000.000		

Ledger Accounts

MARMARA ÜNİVERSİTESİ YAYINEVİ

Active Partner Yalçın Akıncı Subscription			
1)	500.000.000	3)	500.000.000

Active Partner Yalçın Akıncı Capital			
		1)	500.000.000

Shares			
1)	500.000.000	2)	500.000.000

Sleeping Partners holding Shares Capital			
		1)	500.000.000

Sleeping Partners holding Shares Subscription			
2)	500.000.000	4)	500.000.000

A Bank			
3)	500.000.000		
4)	500.000.000		
	1.000.000.000		

Assets	Beginning Balance Sheet	Liabilities and Partners' Equity
A Bank	1.000.000.000	Active Partner Yalçın Akıncı capital 500.000.000
		Sleeping Partners Holding Shares Capital 500.000.000
	1.000.000.000	1.000.000.000

Example: Gradual formation

A partnership limited by shares has been set up under the trade name of Mustafa Tezcan and his partners with TL 1.000.000.000 capital, on a gradual basis. Mustafa Tezcan, the partner holding unlimited liability subscribes TL 200.000.000 of the capital and discharges his liability by paying the above capital in cash. The remaining TL 800.000.000 shall be obtained by issuing shares (800.000 x TL 1000). The founding partners whose names are given below subscribe 1 / 10 of the capital and pay their share to the account established at 'A' Bank.

MARMARA ÜNİVERSİTESİ YAYINEVİ

Faik San	20.000.000
Cemil Taner	20.000.000
Ali Yüksel	20.000.000
Ahmet Ak	20.000.000
	80.000.000

Journal Entries

1

Active Partner Mustafa Tezcan subscription		200.000.000	
Shares		800.000.000	
	Active Partner Mustafa Tezcan Capital		200.000.000
	Sleeping Partners holding shares capital		800.000.000

2

Sleeping Partners holding shares subscription		80.000.000	
Faik San	20.000.000		
Cemil Taner	20.000.000		
Ali Yüksel	20.000.000		
Ahmet Ak	20.000.000		
	Shares		80.000.000

3

'A' Bank		280.000.000	
	Active Partner Mustafa Tezcan Subscription		200.000.000
	Sleeping Partners holding shares subscription		80.000.000
	Faik San 20.000.000		
	Cemil Taner 20.000.000		
	Ali Yüksel 20.000.000		
	Ahmet Ak 20.000.000		

The remaining TL 720.000.000 worth of 720.000 shares are sold by subscription and 1/4 of that amount is collected.

4

Shareholders		720.000.000	
	Shares		720.000.000

5

A Bank		180.000.000	
	Shareholders		180.000.000

Ledger Accounts

Active Partner
Mustafa Tezcan Subscription

1)	200.000.000	3)	200.000.000

Active Partner
Mustafa Tezcan Capital

		1)	200.000.000

Shares

1)	800.000.000	2)	80.000.000
		4)	720.000.000
	800.000.000		800.000.000

Sleeping Partners holding
Shares Capital

		1)	800.000.000

Sleeping Partners holding
Shares Subscription

2)	80.000.000	3)	80.000.000

A Bank

3)	280.000.000		
5)	180.000.000		
	460.000.000		

Shareholders

4)	720.000.000	5)	180.000.000

Balance Sheet

Assets		Liabilities and Partners' Equity	
Shareholders	540.000.000	Active Partner Mustafa	
A Bank	460.000.000	Tezcan Capital	200.000.000
		Sleeping Partners Holding	
		Shares Capital	800.000.000
	1.000.000.000		1.000.000.000

441 TAXATION

Profit share of the partner with unlimited liability will be paid before - tax, pursuant to the articles of incorporation of the company, who in return, will declare this amount in his/her personal income tax declaration as commercial earnings

together with other earnings he/she might have obtained from other sources.

Profit share of the partners with limited liability will be subject to Corporation Tax at a rate of 46%, in the same way as in joint stock companies. In addition, the following charges, based on the amount of tax paid will be made: 5 % for the Defense Industry Support Fund; up to 1% Social Mutual Assistance and Solidarity Fund: 1 % Apprentice and Vocational Training Development Fund.

Balance will be paid to partners with limited liability, before any deductions, whatsoever.

45 ACCOUNTING FOR LIMITED LIABILITY COMPANIES

Article 503 of the Turkish Commercial Code defines limited liability companies as companies that are formed by two or more real persons and/or legal entities under a trade name, whose partners' liabilities are limited exclusively to the amount of capital that have subscribed to put up, and whose principal capital is known. Unlike in joint - stock companies, there are not shares issued against capital that partners in limited liability companies put up. Article 271 of the Commercial Code permits limited liability companies to be established (like joint-stock companies) in order to engage in any commercial enterprise and activity that is not specifically prohibited by law. (Limited liability companies are not allowed in the insurance industry however.) In limited liability companies, the number of partners must not be fewer than two or more than fifty. Limited liability companies' articles of incorporation must be in writing and the signatures of all their partners must be notarized.

450 FORMATION

There are no distinctive features of the accounting records made for the start-up of a limited liability company. Subscriptions are made first of all for the amount of capital referred to in the articles of incorporation. Let us suppose that two partners, Yalçın Akıncı and Mehmet Ak, have subscribed to put up TL 50.000.000 each as capital under the terms of a limited liability company's articles of incorporation. The entries would be as follows:

Yalçın Akıncı capital subscription	50.000.000	
Mehmet Ak capital subscription	50.000.000	
Capital		100.000.000

If the partners have agreed to pay this capital in cash:

Cash		100.000.000	
	Yalçın Akıncı capital subscription		50.000.000
	Mehmet Ak capital subscription		50.000.000

In some limited liability companies one or more of the partners may put up his share as capital in kind, in which case, the articles of incorporation must specify what this capital in kind consists of and how its value is to be determined. Let us assume in our example that Yalçın Akıncı puts up TL 20.000.000 worth of his TL 50.000.000 subscription in goods and the remaining TL 30.000.000 as fixed assets. The journal entries would then be as follows:

Cash		50.000.000	
Goods		20.000.000	
Fixed assets		30.000.000	
	Yalçın Akıncı capital subscription		50.000.000
	Mehmet Ak capital subscription		50.000.000

451 CHANGES IN CAPITAL

Accounting records concerning the increase in the capital of a limited liability company are identical to those concerning the company's formation. Where the capital is to be reduced on the other hand, the capital account is debited and the partners' current accounts are credited. Let us suppose for example that our limited lability company above decides to reduce its capital from TL 100.000.000 to TL 75.000.000 with the two partners receiving an equal share of the TL 25.000.000 reduction. The journal entries would then be as follows:

Capital account		25.000.000	
	Yalçın Akıncı current account		12.500.000
	Mehmet Ak current account		12.500.000

452 DISTRIBUTION OF PROFIT

Unless the company's articles of incorporation make a stipulation to the contrary, partners are entitled to receive a share of balance sheet profits that is proportional to their fulfillment of their capital subscriptions. In the example above for example, both Yalçın Akıncı and Mehmet Ak have entirely fulfilled their capital subscriptions and so would receive the company's after-tax profits equally.

Partners cannot be paid interest on any capital that they put into the company (Turkish Commercial Code article 533). From the standpoint of taxation, limited liability companies resemble joint-stock companies and they set aside reserve funds just like joint-stock companies do.

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ 1883

MARMARA
ÜNİVERSİTESİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

BIBLIOGRAPHY

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, Accounting Terminology Bulletin No 1, 1961.

ATAMAN Ümit, Muhasebede Dönemsonu İşlemleri, İstanbul, 1986.

BIRCH Michael, L., "The Evaluation of Accounting and Auditing Practices in Turkey from the International Accounting Standards Point of View", Türkiye VI. Muhasebe Eğitimi Sempozyumu, G.Ü. Basın - Yayın Yüksekokulu Basımevi.

BROCK R. Horace, PALMER E. Charles, Accounting Principles and Applications: Complete, Mc Graw - Hill, Inc., USA, 1981.

CASHIN A. James, POLIMENI S. Ralph, Cost Accounting, McGraw-Hill, Inc., Japan, 1981.

COX David, Success in Financial Accounting, Wing King Tong Co Ltd. Hong Kong, 1983.

COX David, Success in Financial Accounting: Questions and Answers, Wing King Tong Co Ltd., Hong Kong, 1983.

DURMUŞ Ahmet Hayri A Glossary of Accounting Terms, English-Turkish, İstanbul, 1985.

ERKURAL Kenan, Muhasebe, prensipler ve uygulama Nihat Sayar Yayın ve Yardım Vakfı, İstanbul 1988.

ESKEW K. Robert, JENSEN L. Daniel, Financial Accounting, Random House, Inc., USA, 1983.

HORNGREN T. Charles, Introduction to Financial Accounting, Prentice - Hall, Inc., USA, 1981.

JOHNSON L. Glenn, GENTRY A James, Finney and Miller's Principles of Accounting: Introductory Prentice - Hall, Inc., USA, 1980.

KIVANÇ Turan, Turkish Individual and Corporate Income Taxation Systems, Doğuş matbaası, Ankara, 1969.

MEIGS B. Walter, MOSICH N.A., JOHNSON E. Charles, KELLER F., Thomas, Intermediate Accounting, McGraw - Hill, Inc., USA, 1974.

MOSICH N.A., LARSEN John.E., Intermediate Accounting, Kosaido Printing Co., Ltd. Japan, 1982.

NEEDLES E. Belverd, Financial Accounting, Houghton Mifflin Company, USA, 1983.

ÖZASLAN İsmail, Muhasebenin Teknik Yapısı, İstanbul, 1984.

PAGE John, HOOPER Paul, Accounting and Information Systems, Prentice - Hall, Inc., USA, 1982.

SPILLER A. Earl, Financial Accounting, Richard D. Irwin, Inc., USA, 1971.

THACKER J. Ronald, Accounting Principles, Prentice - Hall, Inc., USA, 1979.

THACKER J. Ronald, Introduction to Modern Accounting, Prentice - Hall, Inc.,USA, 1971.

TÜRK TİCARET KANUNU (TTK)

VERGİ USUL KANUNU (VUK)

WHITEHEAD Goeffrey, Success in Principles of Accounting, Wing King Tong Ltd. Hong, Kong, 1982.

WHITEHEAD Geoffrey, Success in Principles of Accounting: Answer Book, Richard Clay Ltd., Great Britain, 1982.

WILSON R.M.S., Financial Control, A Systems Approach. McGraw Hill, Inc., Great Britain, 1974.

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ 1883

MARMARA
ÜNİVERSİTESİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA
ÜNİVERSİTESİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

MARMARA ÜNİVERSİTESİ 1883
MARMARA ÜNİVERSİTESİ

MARMARA ÜNİVERSİTESİ YAYINEVİ

ISBN 975 – 400 – 035 – 2

MARMARA ÜNİVERSİTESİ
TEKNİK EĞİTİM FAKÜLTESİ
DÖNER SERMAYE İŞLETMESİ
MATBAA BİRİMİNDE BASILMIŞTIR

Istanbul 1990