

IBAC 2012 vol.1

**A PROPOSAL ON PUBLIC ACCOUNTING REFORM IN
TURKEY AND BALKAN COUNTRIES**

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Abstract

This study which is based on the reform in the field of government accounting, shows that taking into consideration that these studies had began in our country in the late 90s, and that Kazakhstan, Kosovo, Macedonia and Serbia are still applying cash-based government accounting at both local and central level, it is not difficult to adjudicate that we are well underway in accordance with the countries of the Balkan. In this study, cash-based accounting system is compared with accrual-based accounting system; the benefits of accrual based accounting and innovations after the transition to that system are tried to be presented to the Balkan countries which implement cash-based accounting; and related examples to the mixture of cash-based and accrual-based accounting system which are applied in Turkey and which are proposed to Balkan countries are provided.

Introduction

Public accounting is the entirety of activities concerning the recording of public financial transactions which can be expressed in monetary terms, collective display of recorded information and the interpretation thereof. The purpose of public accounting is; in order to provide required public economic information for the planning and administration of national economy as a financial administration and control means; to track budgeted incomes and expenditures of a certain fiscal year during that year and end-term as well as the assets and sources of the state in general and administrative units and report administrative units budget practice results as of certain periods and activity results to those concerned according to their information needs.¹⁷⁰ Another purpose of public accounting becoming a financial management tool is however is to form the bases for efficiency analyses by putting forth the costs of services performed by the public.¹⁷¹ In this scope, another fundamental purpose of public accounting is to audit whether public administrations fulfill performance criteria, thereby generate adequate data for assigned auditing units.¹⁷²

¹⁷⁰ Erkan KARAASLAN, "Accrual Basis Accounting and Transparency in State Accounts", Financial Guide Journal, January 2002, no: 15, P:17

¹⁷¹ Erkan KARAASLAN, "The Notion of Public Accounting and Accounting Standards in our Country", Türmob Publications, November 2005 no:1, p:1

¹⁷² Baki KERİMOĞLU, "Accrual Basis Public Accounting", Current Legislation Research Training Journal, January 2006, p:5-6

It is important for a healthy public financial administration to record and keep all financial data the public field may need on a daily basis, correctly and reliably; the processing and analysis thereof and thereby the timely provision of produced management information and financial information to governors holding decision making standing.¹⁷³ A well planned accounting information system provides governors with correct, reliable, timely and adequate information in the decision making processes and generated required reports. Thereby, while helping governors to take effective, timely and correct decisions, it plays an important role in their fulfillment of their accountability.¹⁷⁴

As public accounting used to have narrow activity boundaries, it used to express the need to solely track and report the results of budget revenues and expenses within this narrow field.¹⁷⁵

The economic influences of the stated had gradually increased and economic decision taken by governments had started to guide the economy in a national sense. Upon these developments, the recording and reporting of financial transactions undertaken and financial decisions taken by governments, i.e. public accounting and financial reporting started to draw attention by information users. As a result of the mission adopted by the developing public accounting, the desired efficiency cannot be yielded from public accounting in Balkan countries in the cash based accounting system.

As a result of the financial regulations made in Turkey in the public field the Public Financial Administration and Control Law¹⁷⁶ has been published. As per provisions of this law, in the public accounting system, a transition has been made from the cash based accounting practice to accrual basis accounting principle and with this regulation also comprising general administrative units an accounting unity has been tried to be ensured in the public field.

Public Accounting Systems

For many years accounting systems have been based on the cash based system, whereby allowances granted to budgets, expenses made thereby, revenues collected for the financing of expenses and some other information needed are comprised, while revenues are mainly recorded when collected. Therefore the cash based accounting system mainly is the start of public accounting in a modern sense. At the

¹⁷³ Erkan KARAASLAN, “**Transactions concerning account receivables within the context of the most recent regulations**”, Financial Guide Journal, January 2004 No:23 , p:126

¹⁷⁴ Ministry of Finance, Department of European Union and Foreign Relations, “**International Financial Standards**”, Ankara University Press, 2002 Ankara, p:127

¹⁷⁵ Giray ADİL, “**National Accounting and Public Accounting**”, Ankara 1997, p: 136

¹⁷⁶ Published in the Official Gazette dated 08/06/2005 with government decree no. 2005/25839.

other end of public accounting, including tangible fixed assets, accrual basis accounting system is the case, which means that all kinds of transactions manifested in the fiscal period and to manifest in the future are recorded.¹⁷⁷

Cash Based Accounting

In cash based public accounting transactions due to cash flows are recorded. In this system, financial transaction and incidents are recognized when they are received or paid in cash. Cash based accounting is unrelated to when services and advantages yielded from transactions arise. In this system financial reports mainly display budget incomes and expenses; cash inflows and outflows and cash assets.¹⁷⁸

As a result cash based accounting does not comprise and record public properties ownership, accrued incomes and expenses, investments in actives, public liabilities and debts, appreciation of long term assets, commitments made, semi financial transactions, deferred payments, treasury warranties and tax expenditures^{179 180}.

Accrual Basis Accounting

By the accrual basis transactions and incidences are recorded when they occur, regardless of when cash flows have happened. Revenues account, regardless of whether collected in cash, display the income transactions accrued throughout the fiscal year and to be recorded by generally accepted accounting principles; while expenses account displays the entirety of expenses accrued throughout the fiscal year, regardless of whether paid in cash. As may be understood, the accrued revenue and expenses are included in the accounts and reports of the year during which they have arisen. Such an approach records and reports transactions concerning economic incidents in the fiscal year they have manifested, while accurately reflecting the financial transactions of the relevant activity periods.¹⁸¹

Financial reports generated by the accrual basis accounting system includes incomes, expenses (including depreciations), assets, liabilities and other economic flows. Since the right to use sources expected to offer advantages to the organization in the future are obtained, these are recorded as assets; similarly when future liabilities of the organization towards third parties arise these are recorded as

¹⁷⁷ Erkan KARAASLAN, “**Public Financial Management and Accrual Basis Public Accounting**”, Finance Journal, August 2002, p: 58-75

¹⁷⁸ Erkan KARAASLAN, “**Public Accounting Reform and Regional Governance**”, Regional Governance and Control Journal, April 2003 p: 3

¹⁷⁹ **Tax Expenditure**: expresses tax revenues the state abstains from due to several economic and social reasons by means of tax exemptions and similar practices, while it should have been subject to taxes.

¹⁸⁰ KARAASLAN, *ibid.*, “**Accrual Basis Accounting and Transparency in State Accounts**”, p:15

¹⁸¹ Erkan KARAASLAN, “**Reflection accounts and period end procedures in accrual basis public accounting**”, Financial Guidance Journal, July 2002, No:17 p:107

debts and liabilities. Therefore the difference between assets and debts is recorded and reported as equity.¹⁸²

Moreover accrual basis accounting calculates and reports the entirety of costs including depreciation expenses. In this respect, it can be used in the measurement of whether public resources are being used effectively, efficiently and economically.¹⁸³

In the accrual basis system, financial reports comprise all transactions related to stocks and stock movements and displays all changes arising in the financial state. Financial reports, balance sheets, activity report and cash indicators to be generated by this system, report the government's economic and financial policies' effects and results, thereby form the bases of transparency in state accounts.¹⁸⁴

State Accounting Reform and the Process in Turkey

For transition to the accrual basis public accounting, "Public Accounting General Regulation" comprising accounting and reporting standards and framework calculation plan for units within the general governance was published on 19.11.2003 with government decree no. 2003/6334, while the "General Governance Accounting Regulation" was published on 08.06.2005 with government decree no. 2005/25839.¹⁸⁵ With the "General Administration Accounting Regulation", the accrual basis public accounting practice, which is an accounting system conformant to international standards and suitable for consolidation has been proceeded to. The aimed public accounting system eliminating the deficiencies in the cash basis practice has been established with the accrual basis accounting system.¹⁸⁶

As a result of the regulations made in public accounting; a framework account plan suitable for comparison and consolidation with respect to common accounting and reporting standards in central governance within the scope of general administration and social security institutions.¹⁸⁷

4. Keeping public accounting records by the accrual basis in Turkey

¹⁸² AINSWORTH Penne- D DENIES – R.D. PLUMLEE – C.X. LARSON, **Introduction to accounting; an integrated approach**, USA, 1997 p: 25

¹⁸³ Erkan KARAASLAN, "Public accounting journey in our country", State Audit Court Journal, July 2004 p:43

¹⁸⁴ KERİMOĞLU, *ibid.*, "Accrual basis public accounting", p:5-6

¹⁸⁵ KERİMOĞLU, *ibid.*, "Accrual basis public accounting", p:5-6

¹⁸⁶ Eyüp KIZILKAYA, "Tangible fixed asset accounts in accrual basis public accounting", Financial Guidance Journal, Financial Audit Controllers Association Publications, July - September 2002, p: 105

¹⁸⁷ KARAASLAN, *ibid.*, "Public Accounting Reform and Local Governance", p:1

In the abated accounting system, recording is made on cash basis which causes the failure to record much information holding significance in terms of financial reporting. One of the most important characteristics of the new public accounting system is that it has the capacity to produce results of both cash based budget practices and accrual basis activities.

In the cash based budget practice, budget revenues are recognized and accepted as revenue when collected; while budget expenses are recognized and accepted as expenses when paid. However, public financial transactions are not limited by their budgets. In the new regulation, the reflection technique has been used for the harmonization of the accrual basis accounting system with cash based budget system and the production of accrual basis accounting reports and cash based budget reports. Thereby transactions recognized as incomes and expenses by budget laws are written into budget revenue and budget expenses accounts and by using reflection accounts; transactions recognized as incomes and expenses by generally recognized accounting principles are reflected on income and expense accounts; transactions which are not recognized as incomes and expenses however are reflected in relevant asset or liability accounts.¹⁸⁸ As a result, in the accrual basis accounting system such recording of incomes and expenses makes it possible that both cash based budget practice results are yielded and current period activity results are determined appropriately by the accrual basis method.

¹⁸⁸ KARAASLAN, *ibid.*, “Reflection accounts in accrual basis accounting and period-end procedures”, p:109

For example, when a vehicle is purchased;
Records to be kept according to accrual basis accounting system;

_____ / / _____		
VEHICLES ACC.	XXX	
GRANTED CHEQUES AND TRANSFER		
INSTRUCTIONS ACC.	XXX	
_____ / / _____		
BUDGET EXPENSES ACC.	XXX	
EXPENSE REFLECTION ACC.		XXX
_____ / / _____		

Records to be kept according to cash based accounting system;

_____ / / _____		
BUDGET EXPENSES ACC.	XXX	
PAYABLE CHEQUES ACC.		XXX
_____ / / _____		

Novelties to manifest as a result of the accrual basis public accounting practices in the Balkan countries

In Balkan countries, novelties to materialize with the establishment of a healthily functioning accounting system in conformity with the generally recognized accounting principles and by the accrual basis have been examined by the recording of all public activities and reporting titles.

Recording of all public activities by the accounting system

The cash based accounting system practiced in most of the Balkan countries is entirely focused on the budget. Transactions covered by the budget are recognized, public activities beyond budgets however cannot be tracked within the accounting system. The budget focus of the accounting system results in the failure of transactions formed by financial legislation or administrative decisions and unassociated with budget accounts to reflect in audits and cannot correctly reflect the state's real activity results. With the commissioning of accrual basis accounting system the budget focused accounting system is exceeded and alongside all tangible and intangible fixed which cannot be covered by the budget, unrecorded budget transactions and probable public liabilities will also be recognized. Thereby, in all reports to be obtained by accounting, transactions affecting public activities and performance will be seen.¹⁸⁹

In the present cash based system, the amount of public debt manifested in public charge yet not taken accounts of is not seen. Such debts cannot be seen in the

¹⁸⁹ KERİMOĞLU, *ibid.*, "Accrual basis public accounting", p:21-22

accounting system, efforts to determine debt amounts do not produce correct and complete results. With the accrual basis system, full financial reports will be drawn up and adequately detailed information will be produced.¹⁹⁰

The recognition of tangible fixed assets in the current system requires that all expenses made therefore shall be written off as expense to the relevant year's budget. Nevertheless, a vehicle bought during a financial year or a building constructed therein is also used in the following years. Therefore tangible fixed assets must be written off as expenses as of the years they are used. In other words, these must be activated and recognized as an expense by being subjected to depreciation throughout its economic life. Cash based accounting system considers expenses for fixed assets directly as periodical expenses and recognized these as an expense in the period during which expenses have been made. The increases and decreases of fixed assets cannot be tracked. Writing off the expense made to the budget of the year in which the tangible fixed asset has been purchased, caused the expenses for that year to be overrated.

With the implementation of the accrual basis accounting, financial statements to be produced shall comprise financial tangible and intangible fixed assets, whereby through depreciation and year end re-appreciation practices fixed assets will be reported with market values within the reporting history.¹⁹¹

Reporting

In Balkan countries included in the cash based accounting system detailed activity results cannot be drawn. In the accrual basis accounting system propose to be implemented however, many procedures are applied as period-end procedures, accounts are settled within the period-end transactions and activity results can be drawn as balance sheet – activity result statements.¹⁹²

One of the most important shortcomings of the cash based accounting order presently applied in many Balkan countries is that balance sheets cannot be drawn up in this system. This is because information about asset debt and liabilities and equities is necessary for the preparation of the balance sheets. The failure to record these matters healthily by the system and to produce information causes the balance sheet not to be prepared. Moreover in the cash based accounting system predictions concerning economic flows cannot be made, accordingly, lack of information concerning period expenses and period incomes comparison poses restrictions

¹⁹⁰ Eyüp KIZILKAYA, “**Accrual basis public accounting and the problem of budgeting debts**” Financial Guide Journal, Association for Finance Audit Controllers, January - March 2005, p: 84

¹⁹¹ KERİMOĞLU, *ibid.*, “**Accrual basis public accounting**”, p:22

¹⁹² Erkan KARAASLAN, “**Differences between accrual basis public accounting registry system and cash based public accounting registry system**”, Current Legislation Journal, January 2006 p: 8

regarding the evaluation of the institution’s financial performance and performance indicators cannot be prepared.¹⁹³ Cash based accounting system can only produce information concerning budget practice results, in form of statements drawn up by separate transactions.

In the proposed accrual basis accounting system balance sheets and activity statements can be drawn up; instead of the statements in the cash based accounting system which are far from being informative, balance sheets comprising assets, debts and equities, activity statements setting forth activity and services results can be adjusted and performance appreciation can be made. The relevant institution’s financial standing and performance can be set forth in a clear, understandable and correct way.¹⁹⁴ In the below regulated table; implemental differences between cash based accounting system applied in the Balkan countries and proposed accrual basis accounting system is given.

CASH BASED ACCOUNTING	ACCRUAL BASIS ACCOUNTING
<u>Accounting Reports</u> Budget settlement statements <u>Accounting Practices</u> Cash based accounting system	<u>Accounting Reports</u> Balance sheet Activity result statement Cash flow statement Income and expense functional / economic classification statements Budget revenue and budget expense functional /economic classification tables <u>Accounting Practices</u> Accrual basis accounting system Depreciation Display of assets in the balance sheet Immediate recording of stock and fixed assets in audits

Table 1: Comparison of accrual basis accounting order and cash based accounting order

¹⁹³ MONTESIMOS Vicente – MARGUES Jose M. Vela, **Bases of Accounting in Governmental Accounting System in Spain IFAC Public Sector Committee**, 1996, p: 21-23

¹⁹⁴ MONTESIMOS, MARGUES, *ibid.*, “**Bases of Accounting in Governmental Accounting System**”, p: 21-23

A proposal concerning the start of joint tracking on budget and activity accounts by Balkan countries' public accounting system

While in countries implementing cash based accounting system, accounting records are kept for elements considered to be revenues and expenses in terms of budget, elements considered to be revenues and expenses both in terms of budget and accounting can be recorded with the transition to the accrual based accounting system.

According to the proposal made; incomes related to the budget, are both recorded in the budget expenses account and expenses account or relevant account by means of expense reflection account. Budget related revenues however are recorded in the budget revenues account on the one hand and revenue account through revenue reflection account on the other. An element considered as income-expense merely in terms of accounting are recorded in the expenses account/ revenues account without being associated with budget revenues and expenses. For example;

Yield of Tax Revenues;	Asset Sales;
_____ / / _____	_____ / / _____
CASH ACC.	CASH ACC.
INCOMES ACCOUNT.	VEHICLES ACC.
_____ / / _____	_____ / / _____
INCOME REFLECTION ACC.	INCOME REFLECTION ACC.
BUDGET REVENUES ACC.	BUDGET REVENUES ACC.
_____ / / _____	_____ / / _____

In the second journal records kept; the yield of tax revenue and revenues arising due to asset sales, since they are budget related revenues, are associated with budget accounts through the income reflection account.

Consumption Material Purchase;	Asset Purchase;
_____ / / _____	_____ / / _____
EXPENSES ACC.	BUILDINGS ACC.
CASH ACC.	CASH ACC.
_____ / / _____	_____ / / _____
BUDGET EXPENSES ACC	BUDGET EXPENSES ACC.
EXPENSE REFL. ACC.	EXPENSE REFL ACC.
_____ / / _____	_____ / / _____

In the second journal records kept; expenses arising due to the purchases of consumption materials and assets, since they are budget related expenses, are associated with budget accounts through the expense reflection account.

With the proposed new accounting system, financial, tangible and intangible fixed asset account grouping will be used with the commissioning of the accrual basis accounting system. In the cash based accounting system these assets are not tracked, there not observable in accounting records.

In the proposed system, financial, tangible and intangible fixed assets can be tracked comprehensively. Thereby produced financial statements will comprise tangible fixed assets, with depreciation and re-appreciation practices tangible fixed assets will be reported with the required value.

For example; accounting records in case a public institution in Macedonia is purchased by writing tangible fixed asset into the budget as incomes and expenses¹⁹⁵;

a- Records to be made according to the accrual based accounting system;

_____ / / _____	
FIXED ASSET ACC.	XXX
CHEQUES AND TRANSACTION	
INSTRUCTION ACC.	XXX
_____ / / _____	
BUDGET EXPENSE ACC.	XXX
EXPENSE REFLECTION ACC.	XXX
_____ / / _____	

Tangible fixed assets amortized by year end;¹⁹⁶

_____ / / _____	
EXPENSES ACC.	XXX
ACCUMULATED DEPRECIATION ACC.	XXX
_____ / / _____	

b- Registry to be made according to the cash based accounting system;

_____ / / _____	
BUDGET EXPENSES ACC.	XXX
CHEQUES ACC.	XXX
_____ / / _____	

Depreciation records are not kept in the cash based accounting system.

Moreover, in countries with cash based accounting system there are no expense accounts for future months/ years and income accounts for future months/years.

¹⁹⁵ Income or expense transactions affecting the budget are definitely tracked with budget reflection accounts. The second record kept has been made for this purpose.

¹⁹⁶ There is no such registry in the cash based accounting system.

Therefore as a prerequisite of the notion of periodicity the tracking of incomes and expenses of future periods as future period incomes and expenses is not possible. Incomes and expenses are not transferred between periods, incomes and expenses are recognized as incomes and expenses for the periods during which they materialized. Those the transactions effects of which will come out in pursuant periods remain in the year they are recorded and are not carried forward.¹⁹⁷

Again in countries with cash based accounting system there are no Income / Expense Accrual Accounts. Therefore the tracking of accrued incomes and expenses, the collection – payment of which however will be made in following periods is not possible. In cash planning, it is possible to take advantage of accounting records. As a prerequisite of the notion of periodicity in the proposed system, it is possible to write incomes and expenses as incomes and revenues of the periods they belong to, whereby financial statements become capable of reflecting reality.

For example; a building has been rented on 01.05.2012 to be used by a municipality in Kazakhstan and the rental amount for two years, 120.000 TL, has been paid in cash.

Monthly rental cost: $120.000/24 = 5.000$

a- Records made according to the accrual basis accounting system:

_____ 01 / 05 / 12 _____	
EXPENSES OF PURSUANT MONTHS	60.000
EXPENSES OF PURSUANT YEARS	60.000
CHEQUES AND PAYMENT INSTRUCTIONS GIVEN.	120.000
_____ / / _____	
_____ 01 / 05 / 12 _____	
BUDGET EXPENSES	120.000
EXPENSE REFLECTION	120.000
_____ / / _____	
_____ 31 / 12 / 12 _____	
EXPENSES	40.000
EXPENSES FOR FOLLOWING MONTHS	40.000
_____ / / _____	
_____ 01 / 05 / 13 _____	
EXPENSES FOR FOLLOWING MONTH	60.000
EXPENSES FOR FOLLOWING YEARS	60.000
_____ / / _____	

¹⁹⁷ Erkan ÇALIŞ, “**Reform Works in Turkish Public Accounting**”, Analysis – Accounting Financing Research and Implementation Journal, October 2005, p:100

b- Registry to be made according to the cash based accounting system:¹⁹⁸

_____ 01 / 05 / 12 _____	
BUDGET EXPENSES ACC.	120.000
CHEQUES GIVEN	120.000
_____ / / _____	

For example; when one assumes that the amount of processed interest revenue receivable to be collected the following year as of 31.12.2010 concerning receivables tracked in the public receivables in a public institution in Kosovo is 20.000 TL;

a- Registry to be made according to the accrual basis accounting system:

_____ / / _____	
REVENUE RECOGNITIONS	20.000
REVENUES	20.000
_____ / / _____	

When proceeds are made

_____ / / _____	
BANKS	20.000
REVENUE RECOGNITIONS	20.000
_____ / / _____	
REVENUE REFLECTION	20.000
BUDGET RECEIPTS	30.000
_____ / / _____	

With this regulation proposed to be made in the public accounting system, it is wrong to assume that the cash based system is abandoned entirely. One of the most important characteristics of the proposed public accounting system is that it is capable of producing the results for both cash based budget practices and accrual basis activities. In order to record the proposed system accounting transactions a composition of cash and accrual bases is used. According to the cash basis in terms of budget transaction, registry is made in terms of activities on the accrual basis. With the establishment of the connection between the two systems, accrual basis accounting reports are used, while reflection accounts are used for the production of budget reports on a cash basis. With this recording method both budget results and activity results are obtained by accounting data.

¹⁹⁸ In the cash based accounting system records are made concerning period distinguishing accounts.

Conclusions

In the study predicated on the reform in the public accounting field, it has been seen that Kazakhstan, Tajikistan and Russia were the countries to lastly join the reform works process which Azerbaijan had started first amongst Balkan Countries in 2004. The main criteria of this reform however, has been specified as the transition to an accrual basis accounting system. In countries such as Kazakhstan, Kosovo, Macedonia and Serbia where both at local and central levels cash based public accounting is still being practiced, all financial data needed in the public field with the transition to accrual basis can be kept on a daily, accurate and reliable way; these can be processed and analyzed and thereby with the produced production information financial information can be provided to the use of governors who need to take decisions correctly, reliably and on time.

Since an accounting system parallel to the private sector accounting is established with the suggested system, in the accounting practices of all sectors of the national economy, similar and identical financial reports can be produced by the data generated in unity and on the same basis.

One of the most important characteristics of the proposed public accounting system is that it is capable of producing results for activities both in cash based budget practices and accrual based activities. Moreover in the proposed accrual basis accounting system balance and activity statements can be arranged; instead of the statements in the cash based accounting system far from being informing balances comprising assets, debts and equities, activity statements which can set forth the results of activities and services and performance appreciation becomes possible.

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