



How Does Inflation Accounting Affect the Financial Failure Risk of SMEs? Evidence from Türkiye

ABSTRACT

With the application of inflation accounting adjustments in 2023 for the first time after 2004, there have been significant changes in the financial data of firms. In this study, we examined the change in the Z scores of firms in the Borsa Istanbul SME Industry Index for the last five years and evaluated the effects of inflation accounting practices. While some firms strengthened their financial structures in this process (e.g., BURVA, OZRDN, ERSU, ALMAD), others experienced a decline in their Z scores in 2024 (e.g., ANGEN, OZRDN, POLTK). This is attributed to the effects of inflation accounting on asset valuation and equity structure. On the other hand, some firms experienced a decline in 2023 and a recovery in 2024 (e.g. IZFAS, ENSRI, SAMAT). Overall, the study concludes that inflation accounting adjustments lead to short-term fluctuations in firms' financial indicators, but contribute to a more sustainable financial structure in the long run. The study aims to shed light on future financial analysis and risk assessment processes by providing important findings on how inflation accounting adjustments affect firms' financial structures. In our study, we argue that inflation adjustment methods applied during periods of high inflation provide a more realistic presentation of financial statements and therefore make the bankruptcy risk calculations of companies more accurate. The analyzed financial data and Z-Scores support this claim. Therefore, we believe that our study makes an important contribution.

Keywords: Inflation Accounting, Financial Failure, BIST SME Industrial Index, Altman Z-Score, Bankruptcy.

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INTRODUCTION

Small and Medium-Sized Enterprises (SMEs) are the basic building blocks of the economy. They play an important role in creating employment, supporting economic growth and increasing competitiveness. According to Türkiye Statistical Institute (TÜİK) data, SMEs account for the vast majority of total enterprises in Türkiye and occupy a large share in the trade, industry and service sectors. The high inflation environment in Türkiye in recent years, especially after 2021, has directly affected the financial reports of enterprises. In this context, inflation accounting practices are important to reflect the financial statements of firms more realistically. SMEs are defined as enterprises with fewer than 250 employees per year and whose annual net sales revenue or financial balance sheet does not exceed 500 million Turkish liras. SMEs are divided into three groups: micro, small and medium-sized enterprises. Enterprises with less than 10 employees and annual net sales revenue or financial balance sheet not exceeding TL 10 million are classified as micro enterprises, enterprises with less than 50 employees and annual net sales revenue or financial balance sheet not exceeding TL 100 million are classified as small enterprises, and enterprises with less than 250 employees and annual net sales revenue or financial balance sheet not exceeding TL 500 million are classified as medium-sized enterprises (Official Gazette, 2023).

According to the TÜİK, as of 2023, 3.71 million enterprises operating in the industry and services sectors in Türkiye are classified as SMEs. These enterprises constitute 99.7% of total enterprises. SMEs provided 70.5% of employment, generated 47.4% of turnover and 40.1% of value added at factor cost. The most active sector was trade with 36.1%. Value added per employee was calculated as 111 thousand TL, 341 thousand TL and 615 thousand TL for micro, small and medium-sized enterprises, respectively. In 2023, while the birth rate of SMEs was 15.3%, this rate reached its highest level with 16.3% for micro-scale enterprises. In foreign trade, SMEs realized 35% of total exports and 20% of total imports. 64% of SMEs' imports were realized in the trade sector and 29.2% in the industrial sector (TurkStat, 2023).

Borsa Istanbul SME Industry Index, calculated as of 02.12.2013, consists of the shares of industrial companies traded in the Stars Market, Main Market and Sub-Market that meet certain financial criteria (Yıldız & Vurur, 2022). In this study, 29 firms in the Borsa Istanbul SME industry index are analyzed. The z-scores of these companies calculated based on their financial data for the last five years are analyzed.

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The main theme of this study is inflation accounting and the research question of the study is how inflation accounting affects the z-scores of the firms in the Borsa Istanbul SME Industry index for the last five years. In this sense, our study is structured as follows. In the literature review section, we present a literature review on inflation accounting. In the data and methodology section, we provide information about the data obtained and the methodology of the research. In the findings section, we present the financial data and Altman Z Score analysis of 29 firms in the BIST SME Industry Index. In the conclusion and discussion section, we discuss the findings and conclude the paper with a conclusion.

LITERATURE REVIEW

A review of the literature on inflation accounting reveals that this practice is a critical element for financial statements to reflect the true state of affairs, but there are various difficulties in its implementation. The necessity of updating financial statements during periods of high inflation has been a frequent topic in both theoretical and applied research (Archambault & Archambault, 1999; Nyagari, 1977). In this context, the effects of inflation accounting on companies' profitability and financial statements have been evaluated in many ways (Koçak, Kısakürek, & Babacan, 2023; Ulsan, 2001).

It is seen that inflation accounting requires the development of different approaches especially in the areas of legislation and implementation. For example, when the practices in Türkiye are analyzed, the shortcomings of legal regulations and the inconsistencies of inflation accounting with tax regulations come to the fore (Arzova & Şahin, 2022; Varol, 2022). Demir (2018) states that inflation adjustments made in 2004 need to be updated again in the current economic conditions, while Yücel (2023) draws attention to the necessity of inflation accounting in calculating the real values of interest and foreign exchange difference items.

One of the main challenges in the implementation of inflation accounting is the awareness and competence of accountants in this area. İleri & Altınışık (2004), Karapınar & Ayanoglu (2005), Karasioğlu & Erdemir (2005) presented various views on the applicability of inflation accounting by addressing the perspective of accountants on this issue. Similarly, Yavuz (2007), Aktaş (2009), Yenisu (2022) and Arda (2023) emphasize the importance of inflation adjustment to ensure the reliability of financial statements.

Researches address the effect of inflation accounting on financial ratios in a multidimensional manner. For example, Koçak et al. (2023) reveal the differences in financial ratios before and after inflation adjustment, while Gökten, Gökten & Mollaoğulları (2023) examine the relationship between inventories and inflation. Similarly, Keleş (2015) examined the effects on financial statements within the framework of TAS 29 and Arzova & Şahin (2022) emphasized that there are deficiencies in the application conditions of inflation accounting and price index determination.

In conclusion, the literature on inflation accounting reveals that this practice is critical for companies in order to increase the capacity of financial statements to reflect the true state of affairs, but there are various challenges in its implementation.

METHODOLOGY

This study aims to examine the effects of inflation accounting adjustments on the Z-Score of firms in the BIST SME Industrial Index. The Altman Z-Score is a robust indicator of financial health and bankruptcy risk that is widely accepted in the literature (Habermann & Fischer, 2023). The question of our research is whether inflation adjustment has a significant effect on firms' Z-Score. The analysis was conducted using the last five years of financial data of the firms in the BIST SME Industry Index. The data set of the study is composed of financial data between December 2020 (2020/12) and December 2024 (2024/12). The financial conditions of the firms in this period were evaluated with inflation accounting adjustments and analyzed based on the Z-Score.

Data are obtained from reliable sources such as the Public Disclosure Platform (KAP) and IS Investment. Financial data from these sources include balance sheets and income statements of companies. The research was conducted on the financial data of 29 different firms.

The Altman Z-Score is the main analysis tool of this study. The Z-Score provides an important indicator of the bankruptcy risk of companies. In this analysis, the financial position of companies is evaluated by using the data obtained from inflation-adjusted financial statements. Z-Score calculations are made using certain financial ratios and the bankruptcy risk levels of companies are determined.

In particular, the study analyzed how inflation adjustments affect the financial statements of companies. These adjustments were effective in areas such as increasing the value of fixed assets and changes in equity. These effects are analyzed in relation to changes in the Altman Z-Score.

The study focuses only on 29 firms in the BIST SME Industry Index. The study analyzes the financial data of firms operating in a specific time period (2020/12-2024/12). This has caused the study to reflect only the economic conditions during this period. The financial data used in the study are obtained only from reliable financial data sources such as PDP. However, the ratios used by firms in inflation adjustments and firm-specific financial data could not be accessed. Therefore, firms' data may be incomplete or limited. Readers are requested to take this into account. The study covers only the firms in the BIST SME Industry Index. This limitation ensures that the results of the study are valid only for firms in this index and therefore generalizations cannot be made for firms in other sectors. The study was conducted with inflation-adjusted data. However, the effects of different inflation adjustment methods may change the results of the study. This means that the adjustment methods used may limit the findings of the study. Z-Score is a method used for bankruptcy risk analysis. However, this score is limited to financial data and may be insufficient to fully predict a company's bankruptcy risk. Therefore, it is important to treat the Z-Score results only as an indicator. These limitations are factors that may affect the accuracy and generalizability of the findings of the study. However, the findings of the study with the available data provide important clues on the subject.

With this study, we contribute to the existing literature as follows. First, inflation adjustment aims to eliminate the negative effects of inflation on financial data. In our study, we show that Z-Score analysis with inflation-adjusted data helps to estimate the bankruptcy risk of firms more reliably. In summary, we emphasize the importance of inflation adjustment in financial analysis.

BIST SME INDUSTRY INDEX

The BIST SME Industry Index contributes to economic growth by offering products to both domestic and global markets. The 29 firms in Appendix 1 exhibit a wide diversity in Türkiye's manufacturing sector. The sectoral diversity of these firms is an indication that they contribute to different areas of the economy. The companies' fields of activity are quite diverse. For example, there are companies operating in sectors such as food production, textiles, chemicals, construction materials, electrical industry and biotechnology. We believe that this diversity will increase resilience against sectoral crises. Because when one sector is in crisis, other sectors can remain stable. Most companies were founded in the 1970s and 1980s. This suggests that these companies have some experience in adapting to sectoral changes and economic fluctuations. However, the index also includes more recently established companies, showing the potential for modernization and innovation in the sector.

The PD/DD ratio is the ratio of a company's market capitalization to its book value and shows how the company is valued by the market (Büyükkara, 2021). When this ratio is above 1, a company's market capitalization is considered higher than its book value and is generally considered to have high growth potential. However, when the ratio is below 1, the company's market capitalization is lower than its book value, and investors generally consider this as an indication that the company is undervalued (İş Yatırım, 2025). When the PD/DD ratios of the companies in the BIST SME Industry Index are analyzed in general, for example, the PD/DD ratios of companies such as Izmir Brush (IZFAS) and Yaprak Dairy (YAPRK) are quite high (26.60 and 24.80). This suggests that investors value these companies with high growth expectations. However, high ratios also imply that these companies carry high risk. Because if expectations are not met, the market value can fall rapidly. Companies such as Acıpayam Cellulose (ACSEL) and Altınyaz Mining (ALMAD) stand out with lower ratios (2.40 and 2.20). These ratios indicate that the gap between market capitalization and book value is lower and investors may be more cautious about these companies. However, this can also be considered as a lower risk investment. In addition, the PD/DD ratios of companies such as Fade Food (FADE) and Park Electric (PRKME) are around 0.80, suggesting that the company's future growth potential is limited or its financial position is weak. These ratios suggest that these companies are undervalued by the market.

In terms of market capitalization, some companies have quite high market capitalizations. For example, companies with large market capitalization, such as Polytechnic Metal (TL 23,596.90 million), may attract more investors. On the other hand, there are also companies with small market capitalizations. This reflects the growth potential of some companies. The net debt position of many companies is negative. In particular, companies such as Altınyaz Mining (-427.30 million TL) face a high debt burden. This situation indicates that companies may carry risks in terms of financial sustainability. Debt management can create liquidity constraints in times of crisis and complicate companies' long-term growth targets.

The free float rate shows how transparent companies are with their investors and how easy it is for them to follow the financial situation. The high free float of companies such as Saray Printing (91.10%) and Sencuk Food (98.70%) increases investor confidence and provides stock liquidity. The proportion of foreign investors shows how much attention the companies attract in global markets and how much they are trusted by international investors. This ratio is quite high in some companies (10% and above). In particular, companies such as Formet Metal (0.91) have more

domestic investors, while companies with a high foreign investment ratio, such as Emek Electric (2.90%), attract more attention from foreign markets.

Companies in the BIST SME Industry Index are generally resilient and diversified. However, financial challenges such as net debt and low free float ratios suggest that some companies may be more vulnerable to crises.

RESULTS

Based on the data obtained from KAP and IS Investment, brief summary information, summary balance sheets and income statements, and Z scores of 29 firms in the BIST SME Industry Index are presented in the Appendices and briefly interpreted in this section.

Acıpayam Cellulose Industry and Trade Inc. (ACSEL)

The company was established in 1973 in Acıpayam district of Denizli. As a CMC (carboxymethylcellulose) producer in Türkiye, the company produces intermediates for detergent, pharmaceutical, food, drilling, paint, glue and cosmetics industries. The company exports to regions such as North America, Eastern Europe, North Africa and the Middle East. A 92% share of the company was transferred to Verusaturk Venture Capital Investment Partnership Inc. in 2012 and sold to Verusa Holding Inc. in 2018 (PwC, 2023). An analysis of ACSEL's Z scores reveals a significant downward trend in the level of financial risk in the last five years. The Z score of 5.19 in 2020 decreased to 3.73 in 2021 and to 3.43 in 2022. In 2023, after the inflation adjustment was applied, the Z score dropped to 1.52, reaching its lowest level, before partially recovering to 2.05 in 2024. The sharp decline in 2023 can be attributed to the inflation adjustment. Since the inflation adjustment updates the non-monetary assets in the balance sheet, it caused changes in the total asset value of the firm and affected the financial ratios. In 2023, the sharp decline in the Z score indicates that the firm's debt burden has become more pronounced in real terms and the level of financial risk has increased. In 2024, the score increases to 2.05, indicating a partial improvement in the firm's financial structure after inflation accounting.

Altınyaz Mining and Energy Investments Industry and Trade Inc. (ALMAD)

The company was established in 1962 and operates in the mining, energy and vegetable oil sectors. In 2021, the company expanded its field of activity and focused on mining and energy fields and switched to the upper market in Borsa Istanbul. Its subsidiaries include Altınyaz Renewable Energy and Gurtas Agriculture Energy (RSM Turkey Uluslararası Bağımsız Denetim A.Ş. & Kumuşoğlu, 2024). When the Z scores of ALMAD for the last five years are analyzed, it is seen that there are significant fluctuations between periods. The Z score, which was 1.54 in 2020, increased to 9.72 in 2021, but decreased to 3.93 in 2022, indicating that the level of financial risk increased again. In 2023, after the inflation adjustment was applied, the Z-score increased to 13.72 and decreased to 8.89 in 2024. In 2023, inflation accounting adjustments had a positive impact on the firm's financial indicators. The inflation adjustment increased the firm's total asset value by updating the non-monetary assets on the balance sheet, which led to a sharp increase in the Z score. In 2024, the Z score declined to 8.89, indicating that the firm's financial indicators reached a more sustainable level after inflation accounting. As a result, inflation adjustment has had an increasing effect on the Z score by reflecting the financial structure of ALMAD more realistically.

Anatolia Diagnostics and Biotechnology Products Research and Development Industry and Trade Inc. (ANGEN)

The company operates in the molecular diagnostics sector in Türkiye. It was founded in 2010 by a small team. In its 15,000 m² R&D and production area, the company develops products that are exported to more than 70 countries. Its main specialization is molecular diagnostics, producing kits and devices with techniques such as PCR, Real-Time PCR. With a highly trained team of 205 people, the company is a globally recognized brand and was the first Turkish manufacturer to participate in global test standards studies with the invitation of the World Health Organization (PKF Aday Bağımsız Denetim A.Ş. & Çarpatan, 2024). When the Z scores of the company are analyzed, it is seen that it has followed a fluctuating course in the last five years. The Z score of 8.31 in 2020 showed a significant increase, rising to 18.10 in 2021. However, it declined to 5.35 in 2022 and entered a downward trend. In 2023, after the application of inflation adjustment, the Z score decreased to 4.66 and in 2024 to 3.63, indicating an increase in the level of financial risk. The decline in 2023 can be attributed to the inflation adjustment. In 2023, the decline in the Z score indicates that the firm's debt burden has become more significant in real terms and the level of financial risk has increased. In 2024, the decline in the score to 3.63 indicates that the firm has not achieved a full recovery in its financial structure after inflation accounting. As a result, the inflation adjustment has had a downward impact on the Z score of ANGEN by making its financial risk level more pronounced.

Bayrak EBT Sole Industry and Trade Inc. (BAYRK)

The company started with plastic production in 1993, shifted to shoe sole production in 1997, and changed its title in 2020. The company produces EVA, Thermo and E-TPU soles. As of 2023, it had 184 employees and a capital of TL 47.1 million. 77.29% of its shares are traded on Borsa Istanbul (Deneyim Bağımsız Denetim ve Danışmanlık A.Ş. & Aktaş, 2024a). When the Z scores of the company are analyzed, it is determined that it has followed a fluctuating course in the last five years and its financial risk level has fluctuated. The Z score of 1.91 in 2020 showed a gradual decline to 1.57 in 2021. In 2022, it decreased to 0.94, indicating that the financial risk level of the firm increased. In 2023, after the inflation adjustment was applied, the Z score recorded a temporary recovery, rising to 1.93. However, in 2024, it falls to -0.71, indicating that the firm is under serious financial risk and is facing a possible financial distress. The increase in 2023 can be largely explained by the revaluation of assets and the easing of debt burden in real terms. However, the decline in the Z score to a negative level in 2024 indicates that the financial structure of the firm has deteriorated significantly and may be at risk of bankruptcy.

Burcelik Valve Industry and Trade Inc. (BURVA)

The company is engaged in casting, machinery and valve production. Founded in 1968, the company operates in Bursa. It is Türkiye's first butterfly and ball valve manufacturer and the only valve company traded on Borsa Istanbul. It has many international certificates, especially ISO 9001-2015. It exports to Western Europe and provides services to industrial plants, energy, mining, petrochemical and maritime sectors (Kavram Bağımsız Denetim ve Danışmanlık A.Ş., 2023). When the Z scores of the company for the last five years are analyzed, significant fluctuations are observed in its financial health in general. From 2020 to 2022, the Z score increased from 1.78 to 1.84, and then increased to 2.11 in 2023, indicating an improvement in its financial health. By 2024, the Z score had reached 6.29. This is a significant increase. The fact that in 2023 and 2024 inflation adjustments were made has an impact on this change. In 2023, the inflation adjustment allowed for a more accurate assessment of the company's financial position and enabled the Z score to be calculated on a more solid basis. The higher Z score in 2024 is a reflection of the inflation adjustment as well as improvements in the company's actual financial health.

Dinamik Heat Machinery Insulation Materials Industry and Trade Inc. (DNISI)

The company has been operating in the insulation sector since 1991. It produces products such as insulation accessories, XPS, polyethylene and elastomeric rubber foam. It has ISO 9001 and ISO 14001 certificates. Continuing to grow both in Türkiye and abroad, the company stands out with its technological investments and R&D studies (HSY Danışmanlık ve Bağımsız Denetim A.Ş. & Cengiz, 2023). An analysis of the firm's Z scores for the last five years reveals significant fluctuations in its financial health. While its Z score was 3.80 in 2020, it increased to 4.83 in 2021, showing an improvement in its financial health. However, by 2022, the Z score declined sharply to 2.17, and in 2023 it dropped to 1.99, increasing the company's financial risk. In 2024, the Z score recovered slightly, rising to 2.25. In 2023 and 2024, the implementation of inflation adjustment in Türkiye had an impact on these changes.

Dogusan Pipe Industry and Trade Inc. (DOGUB)

The company is engaged in the production of perlite concrete tiles and perlite floor tiles. Headquartered in Erzincan, the company's shares have been traded on Borsa Istanbul since 1984. The total capital of the company, 56.09% of which is owned by the Privatization Administration, is 39 million TL (Report Bağımsız Denetim Anonim Şirketi & Morgül, 2024). When the Z scores of the company for the last five years are analyzed, fluctuations are observed. The Z score, which was 0.92 in 2020, increased to 2.95 in 2021, showing a significant improvement in the company's financial structure. However, it was realized as 2.66 and 2.86 in 2022 and 2023, respectively. By 2024, the Z score drops to -0.09, indicating a significant increase in the company's financial risk. The inflation adjustment applied in 2023 and 2024 had an impact on these changes. The sharp decline in 2024 may be an indicator of the deterioration in the company's financial structure as well as the effect of inflation adjustment.

Emek Electric Industry Inc. (EMKEL)

The company was established in Ankara in 1969. It operates in the fields of transformer, capacitor, separator and electromechanical equipment production, testing, marketing and sales. It aims to create new production areas with R&D investments. It holds ISO 9001:2008, ISO 14001 and OHSAS 18001:2007 quality certificates. While operating in the international market with Emek Electric USA in the USA, Emek Sales and Marketing Inc. and Emek R&D Partnership increase its effectiveness in the sector. The company's capital is TL 150 million and 71% of its shares are publicly traded (Karar Bağımsız Denetim ve Danışmanlık A.Ş. & Eflatun, 2024). When the Z scores of the company for the last five years are analyzed, it is seen that there are fluctuations in its financial structure. The Z score of 0.42 in 2020 increased to 1.26 in 2021, showing a significant improvement in the company's financial health. However, it decreased to 0.75 in 2022, increasing its financial risk. In 2023 and 2024, it recovered gradually to 0.96 and 1.02,

respectively. The inflation adjustment in 2023 and 2024 allowed for a more accurate analysis of the financial statements. The increase in the Z score in 2024 may be a partial result of the inflation adjustment.

Ensari Leather Food Industry and Trade Inc. (ENSRI)

The company was established in 1993 in Istanbul and operates in leather processing, import, and export. Its subsidiaries, Ensari Flour and Nexus Synthetic Sack are active in flour production and the packaging sector, respectively. In 2023, the company underwent a partial demerger through a simplified affiliate model (Yeditepe Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş. & Saat, 2024). An analysis of the company's Z-scores over the past five years reveals significant changes in its financial structure. The Z-score, which was 0.45 in 2020, declined to 0.35 in 2021, indicating an increase in financial risk. However, it rebounded to 0.82 in 2022, signaling signs of recovery. In 2023, the Z-score rose to 2.05, reflecting a marked improvement, and remained stable at 2.02 in 2024. The inflation adjustment applied in 2023 and 2024 allowed for a more accurate assessment of the financial statements.

Ersu Fruit and Food Industry Inc. (ERSU)

The company was founded in 1968 and is engaged in the production of fruit and vegetable concentrates, fruit juices, tomato paste, and beverages. It operates a factory in Ereğli (Konya), producing fruit juice and tomato paste from various fruits, and another facility in Niğde, where it manufactures apple concentrate and plastic barrels. The company's shares are part of the Akman Holding Inc. group and are traded on Borsa Istanbul (Note Office Uluslararası Bağımsız Denetim Danışmanlık ve Yeminli Mali Müşavirlik AŞ & Çelik, 2024). An analysis of the company's Z-scores over the past five years indicates financial volatility. The Z-score, which was 2.34 in 2020, slightly declined to 2.24 in 2021. In 2022, it fell to 1.46, signaling increased financial risk. However, it recovered to 2.49 in 2023 and surged to 4.51 in 2024, indicating a significant strengthening of the financial position. The notable increase in the 2024 Z-score is thought to be partly due to the effects of inflation adjustment.

Fade Food Investment Industry and Trade Inc. (FADE)

The company was founded in 1995 in the Menemen district of İzmir. It operates in the production of frozen and dried fruits and vegetables as well as shopping mall management. Having transitioned into a joint-stock company in 2018, FADE began trading on Borsa Istanbul's Main Market in 2020 (Artı Değer Uluslararası Bağımsız Denetim ve YMM A.Ş. & Taf, 2024). A review of the company's Z-scores over the past five years shows fluctuations in financial health. The Z-score, which was 2.78 in 2020, declined to 2.66 in 2021 and further to 2.24 in 2022, indicating increased financial risk. Although it recovered to 2.78 in 2023, it fell again to 2.15 in 2024, pointing to renewed financial weakness.

Federal Mogul Izmit Piston and Pin Production Facilities Inc. (FMIZP)

Established in 1967, the company manufactures and trades pistons, sleeves, piston rings, pins, and automotive spare parts. It is also engaged in packaging production, import, export, and other commercial operations. The company operates in Türkiye, with its headquarters located in İzmit, Kocaeli. Its main shareholder is Federal Mogul Powertrain Automotive Inc., and 22.26% of its shares are publicly traded on Borsa Istanbul (Eren Bağımsız Denetim A.Ş. & Akkaş, 2024). A review of the company's Z-scores over the past five years highlights fluctuations in financial health. The Z-score rose from 6.33 in 2020 to 7.81 in 2021, indicating a strong financial structure. However, it declined to 4.64 in 2022 and further to 4.49 in 2023, suggesting increased financial risk. In 2024, the score improved to 5.75. The inflation adjustments implemented in 2023 and 2024 enabled a more realistic evaluation of the financial statements and contributed to the observed changes in the company's Z-score.

Formet Metal and Glass Industry Inc. (FORMT)

Formet Metal was established in 2005 in Kayseri, Türkiye, and transformed into a joint stock company in 2016. The company is engaged in the production, procurement, sales, import, and export of construction materials such as doors and windows made from various materials including steel, aluminum, wood, and PVC. It is also involved in the manufacturing and trading of durable consumer goods and small household electrical appliances. One of its subsidiaries, Formet Foreign Trade Inc., is active in the trade of hardware supplies, glass products, and construction materials (Deneyim Bağımsız Denetim ve Danışmanlık A.Ş. & Aktaş, 2024b). An analysis of the company's Z-scores over the past five years reveals fluctuations in its financial health. While the Z-score rose from 1.05 in 2020 to 2.00 in 2021, indicating an improvement, it fell back to 1.05 in 2022. Although there was a recovery to 1.53 in 2023, the score declined sharply to 0.64 in 2024, signaling increased financial risk. Inflation adjustments applied in 2023 and 2024, which replaced nominal values with real values in financial statements, have significantly influenced these variations.

Iz Investment Holding Inc. (IZINV)

Established in 2010, İz Investment is a publicly traded investment company registered with the Capital Markets Board of Türkiye. In addition to offering financial investment services, the company also invests across multiple sectors. Its shares were publicly offered in 2013, listed on Borsa Istanbul's Secondary Market in 2020, and moved to the Main Market in 2021. The company has numerous wholly owned subsidiaries operating in agriculture, livestock, chemicals, energy, and technology sectors (SGD Bağımsız Denetim Hizmetleri A.Ş. & Kocatüfek, 2024). The company's Z-scores over the past five years indicate notable volatility in its financial performance. While the Z-score was 0.56 in 2020, it declined drastically to 0.01 in 2021, signaling severe financial weakness. In 2022, however, the score rebounded to 2.16, followed by a decline to 0.74 in 2023, and a subsequent rise to 2.18 in 2024. Inflation adjustments implemented in 2023 and 2024 contributed to a more realistic assessment of the company's financial indicators.

Izmir Brush Industry and Trade Inc. (IZFAS)

Founded in 1993 in the Torbalı district, İzmir Brush manufactures a wide range of brushes and rollers using materials such as bristle, wood, plastic, tin, and fabric. Its product portfolio includes paint brushes, car brushes, cleaning brushes, mops, and similar items. Additionally, the company supplies commercial products, offering a broad range of items to the construction and cleaning industries (Görüş Bağımsız Denetim ve YMM A.Ş. & Işık, 2024). An evaluation of the company's five-year Z-scores reflects fluctuations in financial stability. The score declined from 1.37 in 2020 to 0.90 in 2021, indicating financial fragility. It improved to 1.62 in 2022, dropped to 1.16 in 2023, and rose again to 1.93 in 2024. The inflation adjustments in 2023 and 2024 provided a more accurate representation of the financial data.

Luxury Velvet Trade and Industry Inc. (LUKSK)

Luxury Velvet was established in 1972 in Kayseri and is engaged in the production and sale of velvet fabrics for upholstery, curtains, and garments. The company is listed on Borsa Istanbul and has been publicly traded since March 22, 1991. On December 29, 2023, it merged with Luxury Real Estate Development and Investment Inc. (Çözüm Ünlüer Bağımsız Denetim ve YMM A.Ş. & Ünlüeroğlugil, 2024). An analysis of the company's Z-scores over the last five years shows significant variability. The score increased from 0.95 in 2020 to 1.07 in 2021 but declined to 0.89 in 2022. In 2023, it rose sharply to 2.10, suggesting a strong financial recovery. However, it decreased again to 1.63 in 2024. The notable improvement in 2023 signaled a strengthening of the company's financial structure, while the decline in 2024 warrants further scrutiny in terms of sustainability. Inflation adjustments in 2023 and 2024 allowed for a more accurate financial evaluation.

Nigbas Nigde Concrete Industry and Trade Inc. (NIBAS)

Founded in 1969 for the production of concrete poles, Nigbas has expanded its operations to include prefabricated concrete products, reinforced concrete structural elements, construction chemicals, and glass fiber reinforced concrete (GRC). Since 2012, the company has been listed on Borsa Istanbul and conducts all its operations within Türkiye. Nigbas also holds a 3.13% stake in BND Electric Production Inc., which is active in electricity generation (Birleşik Ekol Bağımsız Denetim A.Ş. & Bilen, 2024). An examination of the company's Z-scores over the past five years highlights a general upward trend with recent signs of decline. The score increased from 2.04 in 2020 to 3.45 in 2021 and peaked at 5.18 in 2022, indicating a period of financial strength. However, it declined to 3.69 in 2023 and further to 3.10 in 2024, reflecting a slight weakening. The inflation adjustments applied in 2023 and 2024 contributed to presenting a more balanced picture of the company's financial indicators.

Oncological Systems Industry and Trade Inc. (ONCSM)

The company was founded in 2008 and became a joint-stock company in 2018. It operates in the production and sale of medical devices, imaging equipment, and medical consumables. Additionally, it provides chemotherapy drug preparation services and sells diagnostic devices and test kits (Eren Bağımsız Denetim A.Ş. & Hikmet, 2024). An analysis of the company's Z-scores over the past five years reveals significant fluctuations in its financial health. In 2020, the Z-score was 2.02, rising sharply to 4.60 in 2021, indicating strong financial performance. However, in 2022, it declined to 1.48, signaling increased financial risk. The Z-score further dropped to 0.80 in 2023, reaching its lowest level, before partially recovering to 1.55 in 2024. The decline to 0.80 in 2023 suggests that the adoption of inflation accounting may have led to more realistic financial statements, revealing that the company's financial position in previous years might have been overstated. The improvement in 2024 to 1.55 indicates the company's adaptation to inflation accounting practices.

Ozerden Packaging Industry Inc. (OZRDN)

The company operates in the packaging industry. Established in 2000, it changed its name to “Ozerden Packaging Industry Inc.” in 2023. It produces and sells various packaging products, including bubble wrap, insulation boards, and foam sheets. The company is 58.81% publicly traded and has a wholly-owned subsidiary, Bizofol GmbH, operating in Germany (Ulusal Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş., 2024). An examination of the company’s five-year Z-scores shows notable volatility in its financial structure. The Z-score was 0.73 in 2020, rising to 1.71 in 2021 and further to 2.37 in 2022, reflecting a recovery. However, in 2023, the Z-score surged to 6.01, likely due to the implementation of inflation accounting, which adjusted historical profit figures and provided a more accurate financial picture. In 2024, the Z-score declined to 3.30, indicating a normalization process and the company’s ongoing adaptation to inflation accounting.

Park Electric Production Mining Industry and Trade Inc. (PRKME)

Founded in 1994, the company operates in mining, energy production, and distribution. It specializes in mineral exploration, extraction, and processing and has expanded into energy projects. In 2017, it acquired Konya Ilgın Electric Production Industry and Trade Inc., entering lignite coal production and thermal power plant development. Listed on Borsa Istanbul, the company is headquartered in Istanbul, with Park Holding Inc. as its major shareholder (PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. & Sürücü, 2024). The company’s Z-scores over the past five years exhibit fluctuations. The score was 5.76 in 2020, declining to 4.91 in 2021 and further to 2.43 in 2022, indicating financial vulnerability. However, it rebounded to 5.16 in 2023, likely due to inflation accounting adjustments that provided a more realistic financial assessment. In 2024, the Z-score stabilized at 5.06, demonstrating financial resilience and successful adaptation to inflation accounting.

Polytechnic Metal Industry and Trade Inc. (POLTK)

Established in 1985, the company operates in the aluminum and aluminum chemicals sector. It went public on Borsa Istanbul in 2020, with 19.69% of its shares publicly traded. Its major shareholder is Coventya Beteiligungs GmbH, which was acquired by Element Solutions Inc., making the latter an indirect parent company. The company operates in the Tuzla Chemical Industry Zone (Denge Bağımsız Denetim Serbest Muhasebeci Mali Müşavirlik A.Ş. & Erdem, 2024). The company’s Z-scores show moderate fluctuations: 4.62 in 2020, declining to 4.16 in 2021, then recovering to 4.46 in 2022. However, in 2023, the Z-score dropped sharply to 2.03, likely due to inflation accounting adjustments affecting equity and asset valuations. A partial recovery to 2.84 in 2024 suggests improved financial stability.

Prizma Press Printing Publishing Industry and Trade Inc. (PRZMA)

Founded in 1982, the company operates in printing and publishing. It manages printing facilities, produces books, newspapers, and magazines, and trades printing machinery. Since 2021, it has also ventured into hotel and restaurant operations. The company is publicly traded, with 71.26% of its shares listed on Borsa Istanbul (Doğan, 2024). The Z-score trend shows financial volatility: 2.96 in 2020, declining to 2.07 in 2021, then slightly recovering to 2.23 in 2022. In 2023, the score rose to 3.39, reflecting improved financial health, likely due to inflation accounting adjustments. However, a decline to 2.53 in 2024 suggests lingering instability.

Rigo Textile Industry and Trade Inc. (RODRG)

Established in 1997 in Istanbul, the company operates in apparel, fabric, and yarn trade. It also runs retail operations in Azerbaijan through a wholly-owned subsidiary. Publicly traded shares constitute 54.79% of its capital (Bakış Yeminli Mali Müşavirlik ve Bağımsız Denetim A.Ş. & Vural, 2025). The Z-scores indicate significant financial stress: 0.72 in 2020, improving to 0.99 in 2021, then plummeting to -2.81 in 2022, signaling severe risk. A recovery to 1.83 in 2023 suggests stabilization, likely aided by inflation accounting. However, a drop to 1.46 in 2024 indicates ongoing challenges.

RTA Laboratories Biological Products Pharmaceutical and Machinery Industry and Trade Inc. (RTALB)

Founded in 1996, the company produces and trades biological products and chemicals. It went public in 2014 and increased its capital to 100 million TRY by 2024. Subsidiaries include A1 Capital Investment Securities Inc., A1 Education and Fleet Leasing Inc., and Kartal Renewable Energy Production Inc. (PKF Aday Bağımsız Denetim A.Ş. & Sayıcı, 2025). The Z-scores reflect relative stability with fluctuations: 3.22 in 2020, declining to 2.86 in 2021, then recovering to 3.67 in 2022. A sharp rise to 4.83 in 2023 suggests strengthened finances, likely due to inflation accounting. A decline to 3.88 in 2024 indicates moderated performance but sustained stability.

Saray Printing Paper Stationery Trade and Industry Inc. (SAMAT)

The company was founded in 2010 and operates in printing, stationery, advertising, and packaging, as well as the import and export of packaging papers (C&Ç Bağımsız Denetim ve Yönetim Danışmanlığı A.Ş. & Çakan, 2025). An analysis of the company’s Z-scores over the past five years reveals financial volatility. The Z-score was 1.20 in 2020

but dropped sharply to 0.32 in 2021, indicating significant financial fragility. However, it rebounded to 1.87 in 2022, signaling a notable recovery. In 2023, the Z-score declined to 1.54, suggesting a weakening financial structure, and further decreased to 1.46 in 2024, reflecting ongoing instability. The implementation of inflation accounting in 2023 contributed to more realistic financial reporting.

Selcuk Food Industry Export Import Inc. (SELGD)

Established in 1985 in İzmir, the company specializes in dried fruit production (particularly figs) and domestic/international sales. Its headquarters are in İzmir, while its production facility is located in Aydın. The company is 98.69% publicly traded (Ulusal Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş. & Aydemir, 2025). The Z-score trend demonstrates fluctuations: 5.21 in 2020, rising to 5.43 in 2021, and peaking at 6.93 in 2022, indicating strong financial health. However, the score dropped to 3.80 in 2023, likely due to declines in liquidity, profitability, or debt-servicing capacity. A recovery to 5.96 in 2024 suggests improved financial resilience, partly attributed to inflation accounting adjustments that enhanced the accuracy of financial statements.

Seyitler Chemical Industry Inc. (SEYKM)

Founded in 1991 and headquartered in Turgutlu, Manisa, the company operates in the chemical industry under investment incentives. As of 2024, it has no subsidiaries, and its investment incentive certificate has been extended (Artı Değer Uluslararası Bağımsız Denetim ve YMM A.Ş. & Erişti, 2025). The Z-scores show variability: 3.93 in 2020, improving to 4.49 in 2021, then declining to 2.94 in 2022 and 2.35 in 2023, signaling increased financial risk. However, the score surged to 9.31 in 2024, reflecting a dramatic recovery. This improvement is likely linked to inflation accounting, which adjusted asset valuations to reflect real terms.

Vanet Food Industry Domestic and Foreign Trade Inc. (VANGD)

Established in 2010 in Istanbul, the company operates in meat processing, packaging, and trade. It became publicly traded in 2011, with 92.55% of its shares in circulation as of December 31, 2024 (Yeditepe Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş. & Soydan, 2025). The Z-score trend indicates moderate volatility: 5.00 in 2020, rising to 5.25 in 2021, then declining to 4.75 in 2022 and 3.66 in 2023. A slight recovery to 3.80 in 2024 suggests gradual stabilization. Inflation accounting, implemented in 2023, improved the realism of financial statements by aligning asset values with real terms.

Yaprak Dairy and Livestock Farms Industry and Trade Inc. (YAPRK)

Founded in 1994 in Burhaniye, Balıkesir, the company focuses on high-quality raw milk production, holding certifications from the Ministry of Agriculture and EU-approved standards. It went public in 2011 and operates a wholly-owned subsidiary, All Livestock Industry and Trade Inc., for cattle farming. 26.06% of its shares are traded on Borsa Istanbul (Ecovis Değer Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş. & Bayram, 2023). The Z-scores exhibit fluctuations: 1.57 in 2020, rising to 2.00 in 2021 and 2.32 in 2022, reflecting improved liquidity and profitability. A peak of 3.65 in 2023 indicated strengthened financial stability, but the score dropped to 2.28 in 2024, suggesting partial regression. Inflation accounting adjustments in 2023 led to more accurate asset valuations, contributing to the 2023 surge.

THE IMPACT OF INFLATION ADJUSTMENT ON Z-SCORES

In his seminal 1968 paper, Edward J. Altman conducted an analytical assessment, arguing that traditional ratio analysis had been insufficiently explored. Within this framework, corporate bankruptcy prediction was examined as a case study, employing a dataset of financial and economic ratios analyzed through multiple discriminant statistical methods. The study focused exclusively on manufacturing firms, developing the Z-Score model to assess the accuracy of bankruptcy predictions (Altman, 1968). In corporate finance, Tobin's Q ratio is commonly used to evaluate firm performance. Conversely, the Altman Z-Score serves as a financial distress indicator, measuring the likelihood of bankruptcy inversely-the higher the Z-Score, the lower the risk of financial failure (Shahwan, 2015). In essence, the Altman Z-Score is a critical financial analysis tool for assessing a firm's bankruptcy risk.

Inflation adjustment aims to eliminate the distortive effects of inflation from financial statements, thereby providing a more accurate representation of a company's true financial condition. This adjustment can directly influence the financial ratios used in Z-Score calculations. The table below illustrates how financial statement adjustments under inflation accounting may alter bankruptcy risk assessments.

Table 1: Altman Z-Score Interpretation

Altman Z-Score Interpretation	
Z-Score Range	Comment
$Z > 2.99$	Strong financial structure, low risk of bankruptcy

$$1.81 \leq Z \leq 2.99$$

$$Z < 1.81$$

Gray Zone (Unclear, should be analyzed carefully)

High risk of bankruptcy, signal of financial distress

Source: Altman, 1968

As shown in Table 1, the Altman Z-Score is an indicator related to the bankruptcy risk of companies and is categorized into three main groups:

- ✓ Z-Score > 2.99: Safe (very low bankruptcy risk)
- ✓ $1.81 < \text{Z-Score} < 2.99$: Grey Zone (moderate bankruptcy risk)
- ✓ Z-Score < 1.81: Distress Zone (high bankruptcy risk)

An analysis of the Z-Scores of companies listed in the Borsa Istanbul SME Industrial Index for the period 2020–2024 reveals significant fluctuations. In general, with the implementation of inflation accounting starting in 2023, substantial changes were observed in the financial indicators of the firms. In particular, certain companies experienced notable increases in their Z-Scores in 2023. For instance, firms such as BURVA (from 2.11 to 6.29), OZRDN (to 6.01), ERSU (from 2.49 to 4.51), and ALMAD (to 13.72) demonstrated significant improvements in their financial structures in 2023. This reflects the impact of inflation accounting adjustments, such as aligning asset values with fair value and strengthening equity structures.

However, some companies experienced declines in their Z-Scores in 2024 following the adoption of inflation accounting. For example, ANGEN (from 4.66 to 3.63), OZRDN (from 6.01 to 3.30), and POLTK (from 2.03 to 2.84) saw decreases after their 2023 surges. This indicates that the financial statements adjusted under inflation accounting became more balanced in the subsequent year. Some companies, on the other hand, faced notable declines in 2023 but showed recovery in 2024. Firms such as IZFAS (from 1.16 to 1.93), ENSRI (from 2.05 to 2.02), and SAMAT (from 1.54 to 1.46) managed to reduce their financial risks to some extent and moved towards a more stable structure.

With the initiation of inflation accounting practices in 2023, many firms experienced volatility in their Z-Scores. While some companies strengthened their financial health, others increased their risk levels. Inflation accounting had a considerable impact, particularly in equity and asset valuation, making companies' financial structures more realistic. As of 2024, a stabilization process has been observed among most firms, leading to more sustainable financial structures.

These findings indicate that while inflation accounting adjustments cause short-term fluctuations in firms' financial indicators, they ultimately help companies attain a more realistic and sustainable financial structure in the long term (see Table in Appendix 31).

CONCLUSION AND DISCUSSION

In this study, we aimed to analyze the financial failures of companies listed in the Borsa Istanbul SME Industrial Index between 2020 and 2024, and to examine the impact of inflation accounting practices on financial risk assessments. Our findings indicate that inflation accounting adjustments led to significant changes in companies' financial statements, which were reflected in the calculation of Z-Scores. Notably, with the implementation of inflation accounting in 2023, many companies experienced fluctuations in their financial structures. While some firms strengthened their financial indicators and achieved a healthier structure, others faced increased risk levels in the short term. As of 2024, however, a financial stabilization process has begun for most firms, and a relative consistency in Z-Scores has been observed.

These findings suggest that inflation accounting contributes to obtaining more reliable results in bankruptcy risk assessments by making financial statements more reflective of economic reality. Furthermore, although inflation adjustments may cause short-term volatility, they ultimately support the development of a sustainable financial structure in the long run.

This study sheds light on how accounting adjustments applied during periods of high inflation influence the financial analysis processes of firms, thereby offering valuable insights for future academic research and financial decision-making processes.

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