CHAPTER 6

SUMMARY, CONCLUSION, SUGGESTIONS AND CONTRIBUTION OF THE PRESENT STUDY
6.0 SUMMARY

6.0.1 Introduction

The subject of changing prices in financial statements popularly known as accounting for inflation has assumed considerable importance in the last few decades. The present inflation during this period has lent urgency to the need for preparing accounting statements, which reflect the effects of inflation upon enterprise.

The main purpose of financial statements of an enterprise is to present information showing from where the funds have been raised, how they have been utilized and the extent to which such utilization has resulted in profits or losses during the period. A Balance Sheet shows in monetary terms, the capital, the reserve funds and other liabilities of business enterprise as on the date on which it is prepared and how these total funds have been employed over the several types of assets. It must be recognized that the transactions appearing in both the balance sheets and profit and loss account are recorded in the books of accounts in monetary amount which reflect their historical costs; that is historical cost basis of accounting.
In the economic environment, where the prices are frequently changing, as has been the case all over the world in the last few decades, the historical cost based accounting becomes irrelevant.

Thus, the main objective of our study is to endeavour to present a clear picture of what actually takes place when inflation adjustments are applied to accounts and the effect of inflation accounting on the results of companies can be better understood, sometimes this study may give clear indication to shareholders, directors, employees and creditors of how their respective interests are manipulated.

6.0.2 Inflation

Inflation, one of the most important aspects in studying an economy, is so common that some called this century as the century of inflation. The term "Inflation" indicates rise in prices, for the public as inflation.

Although, that's a general truth usually inflation parallels to increase in the prices, a certain definition seems to be some what difficult, since every increase in prices cannot be considered as inflation like a gentle increase in short term, those who called this century as the century of inflation, considered a constant increase over an international scale. They define inflation as a constant and perceptible increase in the general level of the prices. Any gental increase in prices is generally known as the creeping inflation and a cumulative increase as the cumulative inflation.
6.0.3 Iran Economy and Inflation

Iran economy gets along relatively severe inflation courses especially after the World War II.

In recent years, Iran experienced inflation before and after the year of 1978 (the year of Islamic revolution). It is better that Iran economy is assessed in two different periods which are mentioned above. First inflation period and its causes prior to 1978 and second after 1978.

Original causes of inflation prior to 1978 were dependence of economy on foreign countries, non-homogeneous manner in unreasonable growth in montage industries, destroying of agriculture and most important of them unlimited importing of goods after increase of oil price in 1973, while the main cause of inflation after 1978 was decrease of availability goods due to government strategies regarding the budget and the most important reason was the supply being short of demand.

6.0.4 Divulgence Effect of Inflation

Financial statements were presented by the use of unit price indicator. Subsequently, in 1965 statement number (3) was issued by the Accounting Principle Board that had mentioned potential interests of adjustable information.

At the end of 1974, a proposal statement under the title of general purchasing power was issued by the financial accounting standard board.

This statement proposed the application of fixed dollar’s accounting method and of course regarded such an information as an appendix to financial statement yet.
Constant trend of increasing prices during seventies decade, made clear the financial statement’s limitation to historical prices and made difficult the representation of vacillation of dollar’s general purchasing power and significant increase of replacement value of assets, interpretation of reported sources in traditional financial statement.

6.0.5 The Purpose of the Study

The performance accounting system is regarded as the major system or as an important ingredient of the company.

It has developed immense importance in recent times. Hence, it was worthwhile to explore the possibility of the performance accounting system in large service organizations. Following were the purposes of the study undertaken:

1. To study in details about the performance accounting in Iranian companies.
2. To identify any gaps in the format as perceived by the employees.
3. To find means and ways to improve the performance of accounting format through suggestions.
4. It’s contribution towards the growth and development of accounting system of an organization.
5. To identify financial statement problem in Iranian companies and describe the accounting system.
6. To study the accounting system in the selected companies.
7. To study the problem of fluctuation of the prices.
8. To help the manager director to overcome his weaknesses and improve his strength so as to enable him to improve the performance.

6.0.6 Significance of the Study

One of the most important issues about accounting is current inflation in different companies. Now-a-days the rate of inflation is increasing and inflationary accounting should focus on research about alternatives.

As a general definition, Accounting is a real and accurate management of the owners or economical agencies. The term “real and accurate” means a report that includes reliable and understandable information about the financial affairs and event of the company with the least expense.

By this explanation, reflection of the inflation’s effect that has surrounding effect on accounting in preparing information for making decision is made clear. That is revealing what is within the accounting system and with financial affairs and events without reducing or altering them in real and accurate way.

Most of accounting attempt is to provide theories resulting into strategies to enhance the effect of accounting. Although it seems to be difficult, investigators try to compile those theories that could describe the real world. These theories should include the relationship among different aspects of individuals, companies and accounting techniques.
6.0.7 Methodology of the Study and Data Base

The research work is based both on primary and secondary data. Relevant primary data are collected from primary resources like visits and interviews and by using questionnaire method for two levels of managers.

The secondary data was obtained from annual of Central Bank of Iran, and reports of National Accounts of Iran, reports of the different committees appointed by the Government of Iran time to time, from different periodicals, journals and books. The collected information and data were analyzed and used for report writing.

6.0.8 Scope of Study

The scope of study covers the automobile manufacturing companies in Iran with view of high inflation in Iran. Study is exposure of Accounting System. It restricted itself to analysing the options available for Accounting System to measure and manage in the high of inflationary situation.

6.1 CONCLUSION

In this section, the various view points emerge out of the research work done, on the inflationary accounting adopted in planning, executing research study.

1. Financial reports with required information about each company are given to related individuals and administrations. These individuals include manager, owners of capital, creditors and economic
organization, after questioning them to increase the effectiveness of the company. Financial affairs are the main source for the accountants. They should be able to prepare the financial report so that it could be understandable for the other people.

2. Recently, there have been great changes in accounting and definition and concepts.

3. The fundamental problem concerning each accounting system is presentation of useful information related to the described system of accounting. This is the main role of accounting in its now concept and scope.

4. Accountants should be able to prepare the financial reports so that it could be understandable for the other people. It should be based on the reality.

5. Accountants now-a-days say that an economic unit can have a clear program for the future because without this accurate analysis, it is not possible.

6. Based on inflationary accounting system the way of making decision is fundamental part and the measurements are computed by active reasoning.

7. The historical prices method deals with the “Absolute truth”, but in the inflationary accounting system. “way of conditional truth” is under consideration.
The latter system has identified that the various ways of making decisions require various data but in historical price methods we have no such data.

8. Based on the definition, accounting, evaluating and information, is to fix accountants' duties, so that they could select the best way or method for the desired benefits.

9. This is the role that has been mentioned for accounting for the purpose of current action. Useful information is impartial, equitably and entirely reporting and transferring of information and incidents. This function makes clear important mode of accounting.

10. The reflection of inflation effects which is essential for accounting, is inserted in this accounting duty, that is, to reflect this information accountants have announced the following five methods:

   a) Historical cost
   b) Fixed monetary
   c) Current value
   d) Replacement price
   e) Present value or future cash.

11. The subject that created difference between accounting comments and caused constant thinking among theorists, is the effect of price changes on former financial events or in accountants' opinion in the historical item of accounting. Accordingly, scientists believe that since data
resulting from past operation, provides informative foundation for future decisions so, it should be adopted for present economic reality until decision-makers whether, manager, investor, bank, government can make a better decision.

12. Accountants should present theoretical and practical backgrounds of attitude towards existing factors arising from inflation in accounting, scientifically by creating advanced professional environment. We can confess that all of the inflation accounting researchers and of critics have abstained from total rejecting of adjustable financial statements and they have only worked to cite difficulties.

13. Protection and maintenance of capital is a concept that according to it, capital amount is separated from interest resulting from investment. To show that a company could conserve its fixed capital during an accounting period there are different ways relating to recovery of capital as following:
   a) Recovery of capital to fixed monetary unit.
   b) The recovery of capital to the unit money purchasing power.

14. In the statement issued by FASB, the main points which have been discussed are as follows:
   a) The use of unit on money purchasing power to measure the items.
   b) Intermediate comparison.
   c) Benefit measurement.
It is necessary to report effects of price-level changes as information along with financial statements to historical price.

15. Different organizations in national and international level did attempt to better quality and beneficial comparative information of commercial units. These organizations include:
   a) International Accounting Standards Committee.
   b) Cooperative and Economic Development.
   c) United Nation (UN).
   d) European Economic Society.

16. Object of offering the current value are as follows. The main object was preparing useful data, contrast the information offered by audit historical accounting for guiding the managers and other users of financial statements, to specify the financial abilities of company, specifying the income of interests, make the distributions policies and specify the financial labels.

17. Purpose of historical accounting system for providing information for investors and users so that it can help them in decision-making.

18. Iranian car factories are more highly dependent on internal funds and different products have been introduced in the car market of Iranian companies.
19. At present inflationary situation, the price changes in measurements and comparison of financial statements have created significant problems in the companies.

20. Level of price is not fixed, there are changes in the prices. This change affects the decision-making of the investors regarding investment in the company. Therefore the investors think that there is a risk in investing.

21. The effects on net income: there is a decrease in the net income. It depends on the budget, policies, regarding dividend and analysis of financial statements.

22. Taxes depend upon the profits. When the profits decrease the taxes will also decrease and dividend will also decrease.

23. The effect on yield: It has a different effect on the yield, because evaluating and accounting methods to calculate the capital cost are different, and therefore profit is low.

6.2 SUGGESTION

Keeping in view the general observations and findings and conclusion has emerged from the detailed analysis on the data and discussion with the managing director, chief accountant, finance director, auditor, chartered Accountant, consumers, users, investors, creditors, etc. We make the following suggestions for the healthy growth and for sound accounting system.
1. Best idea presented by some critics in changing the measurement unit from money into general quantity and changing the term “monetary unit into general one as a “quantification” or “measurement” so that it will be possible to measure non-monetary measurements.

2. By using the inflationary accounting we move from a traditional and still situation into an ever-changing situation. The theory of benefit changes into the theory of decision-making.

3. Inflation accounting is in specialized magazines of accounting. There is opposition and agreement on ideas about using the level of price. All of them need research in detail in the university and other central research institutions.

4. Audit Organization (AO) in Iran, is formally responsible for national accounting standards and necessary guidance, but about the changing price accounting it does not say anything. It must survey and issue statements about inflationary situation.

5. Accounting on the historical basis has been accepted as a principle and any deviation from it is considered as a custom-breaking. So far, function of accounting on the basis of historical price cost and related practical method have continued against many criticisms.

6. Based on the study, companies are to prepare completed report in the following background, it is very useful:

   a) Income tax on companies related to statement of properties.
b) Any change in the methods of assessing useful life and the value of decreasing assets in order for concluding before and after the inflation adjusting.

c) Interpretation of revealed information.

7. Historical price in the inflationary situation cannot reflect inflationary effects and historical accounting would not present information with high quality and for this aim, there have been suggested some views.

8. Collective financial statements, are supported by the persons interviewed, because, they say that it will help items of fixed monetary unit. Secondly, increase or decrease in the value of assets and profit and loss can be ascertained. Effect of inflation can be worked out.

9. Regarding the statement number 15 issued by International Accounting Standard, this is about the inflationary situation in an economy. It is good and useful for survey.

10. Regarding the statement, number 29 issued by International Accounting Standard. This is about the hyper-inflation in regards to the item in the financial statement. It is related to the survey of present conditions, taxes, dividends etc. It is good and useful for survey.
11. Chartered accountants suggested that the performance accounting should be clear because at present the contents are not divulged, and there is a need for openness about it should be clearly understood and used by everybody.

12. Inflationary accounting is useful for preparing useful data, supplying the information offered by audit for guiding the manager and other users of financial statements. It is good and useful.

13. In the current value system or current price system of fixed monetary unit, changes in prices make it difficult to judge the financial statements. Since when the prices are fixed, accounting by showing the historical price in financial statements reveal the amount are beneficial for the future but the prices are rarely fixed.

14. In the economy of inflation, only understanding the financial affairs is insufficient, but also they should be able to prepare the financial reports so that it could be understood by other people. It should be based on reality.

6.3 CONTRIBUTION OF THE PRESENT STUDY

This research is to find out the attitude of accounting system and is also to compare the historical accounting with inflationary accounting. Important view points below, which emerge out of the study are:
1. The monetary values of properties under possession every time must represent the amount that can be spent for paying debts or buying the other properties. It usually seems that this expectation is not formed on the basis of value of historically real worth.


3. Accounting compilation and development of accounting standard shifted from profession to legislation associations. Because accounting profession recognized economic effects of policies very late. As a result the attempt at creation of a collection of standards to gratify everybody and to secure all of the user's needs and also be fairly, appropriate, was unsuccessful.

4. The present study, by revealing the effects of price change, makes possible for the user to get a clear view about the financial affairs. This reason forced the companies to present information related to the effects of price changes on their activities.

5. An idea set forth for discussion by this survey is changing the measurement unit from money into a general quantity and changing the term "Monetary Unit" into a general one as "quantification" or
“measurement” so that it will be possible to measure non-monetary quantities.

6. One study about 215 companies in inflation situation has shown that income arising from usual operations after the adjustment of figures to the basis of inflation will decrease 40 p.c. So many companies have paid tax from their finance and dividend from their profits.

7. Despite the high inflation rate in Iran, and the belief of the majority of managers and decision-makers and users of financial statements about inflationary accounting, the professional accountants in Iran do not pay attention to it. Perhaps it is due to rules and regulations. They do not need to enter into accounting and assess the truth. Balance sheets that are now accepted by the companies in stock market of Tehran-Iran, have no logical relation among the figures and also their measuring is not reliable.

8. Due to chronic inflation in industry section of Iran, accounting prices have increased, as the result from uncontrolled inflation and increase of money volume and increase of total demand for cash has taken place. Enhanced prices can be regulated with regulation of demand. Problems of inflation are due to political and social forces. The first and simplest way to control price is determining prices according to accounting methods that affect production.
9. The authorities on accounting in Iran tried to convert western countries accounting standards to apply them in Iran. Unfortunately, traditional and native accounting based on the cultural and economic conditions were not taken in account seriously. There is a need to adapt accounting to the traditional accounting system of Iran.

10. The following factors are the most important in accounting development in Iran.

   a) Lack of accountancy national standard.
   b) Lack of universal attention to accountant’s role.
   c) Lack of control on accountant’s endeavours.
   d) Little attention paid to accountancy profession
   e) Lack of endeavour of accountancy association and professional institutions.
   f) General and common dominance of governmental part on economy.
   g) Lack of financial information with managements and the owner of industrial trade institutions.
   h) Lack of competition between trade institutions.
   i) Low level and capacity of accountancy profession.
   j) Unstable economy.