PART II

THE STUDY AND ITS FINDINGS
1 INTRODUCTION

The chapters in Part-I aimed at creating the required conceptual and historical background of inflation accounting. For this purpose, we had a detailed review of various techniques of inflation accounting, existing literature on it and the development of thought and techniques in different countries of the world. We also made a critical evaluation of the literature and identified some areas where scope for further research exists.

Using these inputs as the foundation, we shall now focus our efforts on the Study itself. Chapters in Part-II aim at giving the basic information about of the Project and provide a complete account of the data collected and its interpretation.

The present chapter discusses the objective and scope of the Study, its relevance in the present context and the research methodology adopted for the purpose of conducting the Study.

2 THE PROBLEM DEFINITION

That inflation accounting provides more useful information for financial decision making is beyond doubt. It is desirable that those groups or organisations which are concerned with the process of generating, disseminating and utilising price-level-adjusted accounting/financial information must work out a system and a structure that will provide price-level-adjusted information to all
concerned. In countries like the U.K., the U.S.A. and Brazil, admirable efforts have been made by some groups in this direction. But the most of the efforts have been on the mechanical part of inflation accounting. The emphasis, so far, has been on developing inflation accounting techniques for external reporting purpose. Committees and study groups appointed for this purpose also followed this approach and their recommendations had to face resistance from certain groups. What happened with Sandilands Report, and ASR-190 and ED 18 is enough to illustrate the point.

In our opinion, the problem of inflation accounting needs to be approached from a broader angle. It should be accepted that providing price-level-adjusted information to end-users of accounting/financial information is not a matter of technique development only. In fact, a technique of inflation accounting is only a part of the total system of inflation accounting, which is made up of the process and structure of it. The performance of the entire system will depend upon each component of it. Any effort to develop a technique which ignores this fact will certainly invite resistance from some of the concerned groups. This implies that one who desires to develop a technique and over all system of inflation accounting must, first of all, review the status on all related aspects of the inflation accounting system development.

The figure given below gives an idea of the various facets of inflation accounting system.
Figure 3.1

Different Facets of Inflation: Accounting System

- Existing Practices in Disclosure
- Objectives to Be Achieved
- Existing Legal Framework for Disclosure in Published Accounts
- Existing Resources at Micro/Macro Level
- Existing Legal Framework for Tax, Depreciation and Profit Distribution
- Existing Financial Decision-Making Systems in Companies
- Opinions and Beliefs of Concerned Groups
- Existing Strengths and Weaknesses of Concerned Groups

Inflation Accounting System
In India, the literature on inflation accounting consists of three introductory books, a couple of empirical studies and a few articles. Even government and accounting bodies have of late become aware of the need for inflation accounting. In fact, we need a study that will take a "systems view" of inflation accounting and will present a model of such a system. The present study is an effort in this direction. It is implied that the study is not concerned with development of inflation accounting technique only, but is expected to propose a total inflation accounting process and structure at micro level as well as macro level.

3 SCOPE OF THE STUDY

As the title of the Study suggests, there are two aspects of it; (i) price level changes and corporate reporting, (ii) price level changes and managerial decisions. The first part is concerned with macro level framework of the process and structure of inflation accounting system, i.e. it covers aspects like legal framework for and prevalent practices in external financial reporting; and its supporting systems. The second part is concerned with inflation accounting system for financial decision-making at micro (company) level. It covers aspects like existing decision-making systems, nature of need for price-level-adjusted information and supporting systems for running that system. As was mentioned earlier, the overall objective is to develop a model for inflation accounting system in India.
For this purpose, an effort is made to find answers to the following questions:

1. What should be the objective of inflation accounting system in India?
2. What are the prevalent practices regarding reporting of financial effects of price level changes in corporate reports?
3. To what extent do the present financial decision-making systems and accounting systems take care of the financial effects of changing prices?
4. What are the strengths and weaknesses of various groups concerned with designing and operating the inflation accounting system?
5. What are the relevant views, opinions and experiences of various individuals/groups concerned with designing and running inflation accounting system?
6. What is the existing legal framework for various aspects of corporate reporting? e.g. taxation, depreciation, profit distribution and disclosure.

The proposed model of inflation accounting system is developed on the basis of findings on these questions. It is also supported by necessary guidelines and pre-conditions for its successful implementation.
At this stage, some clarifications will also be found relevant.

1. Development of a technique of inflation accounting is only a part of the whole system of inflation accounting.

2. The Study is not concerned at all with causes, effects and remedies of inflation.

3. Decision making systems, legal framework, indexing systems, corporate reporting practices etc. are studied; only to the extent they are relevant to the present Study.

4  **METHODOLOGY**

The Study aims at developing a model of inflation accounting system in India. The following approach was developed for this purpose.

1. To collect data on the present status on various related aspects of inflation accounting.

2. To Study strengths and weaknesses of the concerned groups.

3. To determine the nature and extent of the need for inflation accounting in the present situation.

4. To set a realistic objective of inflation accounting system in Indian situation and to develop a proposed model of the system.

5. To propose an action plan for implementation of the system.
6. To develop a framework of broad guidelines for effective implementation of the system.

For the purpose of operationalising the abovementioned approach, the following sources of data were identified.

1. Company executives: finance executives as well as non-finance corporate level managers.

2. Practitioners in the field of financial accounting, cost and management accounting, taxation, companies act and management consultancy.

3. Investors, non-institutional as well as institutional.

4. Professional bodies, merchant bodies and other institutions.

5. Other groups like government officials and trade union leaders.

6. Published annual reports of companies.

7. Literature on all the abovementioned sources.

Using above sources, the data were collected on following aspects, in addition to introductory information about each source.

1. Internal financial reporting and accounting systems in companies.

2. External financial reporting practices of companies.
3. Investment decision-making systems of institutional as well as non-institutional investors.

4. Legal framework regarding taxation, depreciation, profit distribution, disclosure in published accounts and other related aspects.

5. Experiences of executives who have attempted inflation accounting in their organisations.

6. Opinions and suggestions of all those who will be concerned with generation, dissemination and utilization of price-level-adjusted information.

7. Awareness of the abovementioned groups towards need for inflation-adjusted information and towards various techniques of inflation accounting.

8. Nature and extent of the need for price-level-adjusted information in the present situation.

9. Strengths and weaknesses of the existing supporting framework, e.g. governmental administration.

For collecting the above mentioned data, the following research methods were used.

1. Questionnaires addressed to (i) finance executives, (ii) practitioners, (iii) non-institutional investors, (iv) institutional investors and (v) professional bodies and other institutions.

2. Content analysis of published annual reports.
3. Interviews.

4. Case studies of companies who have attempted inflation accounting for internal purpose or for external reporting purpose.

The following three figures give an overview of the research methodology adopted for the Study. Variables identified for internal and external reporting systems, sources for collecting data on these variables and methods of data collection are shown therein.

**FIGURE 3.2**

**VARIABLES OF INFLATION ACCOUNTING SYSTEM**

- **INTERNAL REPORTING**
  - Variables
    - Existing Systems & Practices
    - Information needs of Companies
    - Constraints on information supply
    - Organisational constraints
    - Strengths and weaknesses of Company managements.

- **EXTERNAL REPORTING**
  - Variables
    - Existing Corporate reporting Systems and practices
    - Legal framework
    - Information needs of Concerned end-users
    - End-users' Strengths and weaknesses
    - Constraints on information supply
FIGURE 3.3

LINKAGES BETWEEN VARIABLES, SOURCES OF DATA AND DATA COLLECTION METHODS - INTERNAL REPORTING

VARIABLES ON WHICH DATA COLLECTED

- PREVALENT INTERNAL REPORTING SYSTEMS AND PRACTICES
- INFORMATION NEEDS OF COMPANIES
- CONSTRAINTS ON INFORMATION SUPPLY
- ORGANISATIONAL CONSTRAINTS
- STRENGTHS AND WEAKNESSES OF MANagements

SOURCES OF DATA

- PUBLISHED ANNUAL REPORTS
- CORPORATE EXECUTIVES
- FINANCE EXECUTIVES
- LITERATURE
- GOVERNMENT OFFICIALS
- INTERVIEWS

METHOD OF DATA COLLECTED

- CONTENT ANALYSIS
- QUESTIONNAIRES
- CASE STUDIES

INFLATION ACCOUNTING SYSTEM FOR INTERNAL REPORTING
FIGURE 3.4

LINKAGES BETWEEN VARIABLES, SOURCES OF DATA AND DATA COLLECTION METHODS - EXTERNAL REPORTING

VARIABLES

- Legal Framework
- Existing Ext. Repo. Systems & Practices
- Information Needs Of End-Users
- Strengths and Weaknesses of End-Users
- Constraints on Info. Supply

SOURCES OF DATA

- Literature
- Corporate Executives
- Practitioners
- Non-Institutional
- Institutional Investors
- Professional and Other Institutions
- Published Annual Reports
- Government Officials
- Union Leaders

METHOD OF DATA COLLECTION

- Content Analysis
- Questionnaires
- Interviews
- Case Studies
The following observations on the overall approach towards the Study will also help in getting a complete idea of the methodology.

(1) The Study has two broad dimensions; (a) inflation accounting system aiming at more useful internal reporting for managerial decisions, (b) inflation accounting system for better external reporting.

(2) As far as the internal reporting aspect is concerned, the emphasis was on case studies and interviews; while the external reporting aspect was studied through emphasis on questionnaires, interviews and case studies.

(3) Content analysis of published annual reports was made mainly for the purposes of knowing current practices in external reporting and preparation of case studies.

(4) Support of existing literature was also taken at suitable places.

DETAILS OF DATA COLLECTED AND OF RESPONSES

(1) As the first step in the process, 308 companies were identified on the following bases;

(a) classification as followed by Bombay Stock Exchange Directory was adopted, (b) public limited companies with a paid up capital of Rs.2 crores or more were included in the sample. Amount of Paid Capital was taken as the base for deciding sample size because the concept of maintaining shareholders' capital intact is one of the foundations of inflation accounting. The cut-off point was fixed at Rs.2 crores because at that point, we were getting adequate number of
companies in the sample viz. 308, (c) care was taken to see that all
the industries were represented in the sample. 153 companies responded
favourably and contents of their published annual reports for the year
1978 or 1978-79 were analysed. See the table given below for details
of responses.

**TABLE 3.1**

**INDUSTRY-WISE ANALYSIS OF PUBLISHED ANNUAL REPORTS ANALYSED**

<table>
<thead>
<tr>
<th>Group Code</th>
<th>Type of Industry</th>
<th>No. of Companies Contacted</th>
<th>No. of Favourable Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Cement</td>
<td>12</td>
<td>04</td>
</tr>
<tr>
<td>B</td>
<td>Dyes, Chemicals, Fertilizers, Pharmaceuticals</td>
<td>52</td>
<td>27</td>
</tr>
<tr>
<td>C</td>
<td>Electric &amp; Electronics</td>
<td>24</td>
<td>14</td>
</tr>
<tr>
<td>D</td>
<td>Engineering Goods &amp; Structures</td>
<td>63</td>
<td>24</td>
</tr>
<tr>
<td>E</td>
<td>Fibres, Textiles</td>
<td>35</td>
<td>18</td>
</tr>
<tr>
<td>F</td>
<td>Mining</td>
<td>03</td>
<td>02</td>
</tr>
<tr>
<td>G</td>
<td>Paper, Pulp</td>
<td>17</td>
<td>07</td>
</tr>
<tr>
<td>H</td>
<td>Plantations</td>
<td>05</td>
<td>03</td>
</tr>
<tr>
<td>I</td>
<td>Power &amp; Electricity</td>
<td>08</td>
<td>06</td>
</tr>
<tr>
<td>J</td>
<td>Steel, Metal</td>
<td>25</td>
<td>15</td>
</tr>
<tr>
<td>K</td>
<td>Sugar</td>
<td>05</td>
<td>02</td>
</tr>
<tr>
<td>L</td>
<td>Trading</td>
<td>04</td>
<td>02</td>
</tr>
<tr>
<td>M</td>
<td>Transport</td>
<td>08</td>
<td>05</td>
</tr>
<tr>
<td>N</td>
<td>Miscellaneous e.g. Tyre Manufacturing, Hotel.</td>
<td>47</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Overall</td>
<td>308</td>
<td>153</td>
</tr>
</tbody>
</table>

**Overall percentage of response = 49.7%**
Five types of questionnaires were designed for five different groups of respondents; viz. finance executives, practitioners, non-institutional investors, institutional investors and professional and other bodies. Details of each type of data source are given below.

(A) Finance Executives: In addition to collecting introductory information about the executive and the company, this questionnaire was designed with a view to collecting data on internal financial reporting and accounting systems, external reporting practices, respondents' level and their opinions and suggestions on selected aspects of inflation accounting. One executive was selected from each company on the basis of information (Statement showing particulars of employees of the company) given in annexures to the reports of the boards of directors as required Under Section 217 (2 A) of Indian Companies Act, 1956. Details of their job description, academic qualifications and experience were examined and 153 professionally qualified, senior, experienced finance executives were selected as respondents.

Out of 61 finance executives who responded favourably, all were professionally qualified; holding degrees in chartered accountancy, cost accounting or company secretarial. 16.96% of them were holding more than one professional degree. All of them were receiving reports on financial matters like costs, revenues, profits, cash position, working capital position or overall financial position of the company.
(b) Practitioners: This group of respondents mainly consisted of practising chartered accountants, cost/management accountants, management consultants and law experts. Top 75 firms were identified on the basis of frequency distribution of their information given in the published annual reports. Data from this group were collected on their experiences in the context of the problem, awareness towards the problem, opinions and suggestions on various aspects of inflation accounting for external reporting.

Among 22 practitioners who responded favourably, 50% were partnerships and 45.45% were sole proprietorships. 50% of respondent firms were in practice for more than last twenty five years. The field of practice covered auditing (54.55%), management consultancy (27.28%), costing (9.09%) and company law and taxation (9.09%). Out of these firms 22.73% had more than 251 clients. All of them were having companies as clients but in the case of 59.10% company clientele was more than 50%.

(c) Non-Institutional Investors: The group of individual investors was an important source of data, mainly from the viewpoint of external reporting of price-level-adjusted information. The main purpose was to understand their investment decision-making practices, aptitude towards reading the contents of an annual report, their level; and opinions and suggestions on various aspects of inflation accounting. 125 non-institutional investors were identified from Ahmedabad, Bombay, Calcutta, Delhi and Madras. All these investors were holding a minimum of graduation degrees.
For the preparation of case studies, seven companies were approached. Though all of them supplied data required for Study, three case studies were prepared viz. Hindustan Lever Ltd. (HLL), HMT Ltd. and Bharat Heavy Electricals Ltd. (BHEL). HLL was studied for the purpose of internal reporting system, while BHEL and HMT were studied from the viewpoint of external reporting system mainly.

To sum up, the findings of this Study are based on four foundations viz. content analysis, questionnaires, interviews and case studies. Content analysis was made with a view to identifying appropriate respondents to questionnaires and with a view to collect data about trends in corporate reporting with reference to effects of price level changes and to scan the environment with a view to design the inflation accounting system. Interviews were planned mainly from the viewpoint of having discussions with highly experienced and senior executives, office bearers and government officials who were not respondents to the questionnaire but whose experience and views were of very high value for the Study. The other objective was to supplement findings of questionnaires. Case studies were made with a view to analysing the efforts towards inflation accounting, critically evaluating them and attempting an integrated designing of the system. The overall objective of case studies was to demonstrate some of the ideas related to system design and implementation.

(5) NEED AND RELEVANCE OF THE STUDY

Before we discuss the need and relevance of the present Study in particular, let us have an overview of inflation in India so that we can know whether the degree of inflation at all justifies any study on inflation accounting.
Two significant events are associated with the birth of Free India viz. (i) The Second World War and (ii) partition of the country. Both these events generated inflationary effect in the economy. Devaluation of the rupee on September 20, 1949 from 30.225 to 21 Cents in terms of U.S. Currency also contributed to the rise in prices. The Korean War which started in June, 1950 also added to price rise in India. The effect of foreign demand on India's industrial raw materials was so great that the index number of prices in this group shot up by nearly 40 points between June, 1950 and April, 1951. The general index which stood at 410.9 in November, 1950 also reached the peak level of 457.5 in April, 1951.

Tables given below gives an idea of wholesale price trends in four types of classes of goods, viz. food articles, industrial raw materials, manufactures and all commodities.

**TABLE 3.4**

ANNUAL AVERAGE INDEX NUMBER OF WHOLESALE PRICES

(Base Year ended August, 1939 = 100)

<table>
<thead>
<tr>
<th></th>
<th>1947-48</th>
<th>1948-49</th>
<th>1949-50</th>
<th>1950-51</th>
<th>Net Charge During 4 Years (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Articles</td>
<td>306.1</td>
<td>382.9</td>
<td>391.3</td>
<td>416.4</td>
<td>26.4</td>
</tr>
<tr>
<td>Industrial Raw Materials</td>
<td>377.5</td>
<td>444.8</td>
<td>471.7</td>
<td>523.1</td>
<td>27.8</td>
</tr>
<tr>
<td>Manufactures</td>
<td>286.4</td>
<td>346.1</td>
<td>347.2</td>
<td>354.2</td>
<td>19.1</td>
</tr>
<tr>
<td>All Commodities</td>
<td>308.2</td>
<td>376.2</td>
<td>385.4</td>
<td>409.7</td>
<td>24.8</td>
</tr>
</tbody>
</table>
### Table 3.5

**INDEX NUMBER OF WHOLESALE PRICES DURING FIRST FIVE YEAR PLAN**

(Base Year ended August, 1939 = 100)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Articles</td>
<td>416.4</td>
<td>398.6</td>
<td>357.8</td>
<td>334.4</td>
<td>339.8</td>
<td>313.2</td>
<td>- 24.8</td>
</tr>
<tr>
<td>Industrial Raw Materials</td>
<td>323.1</td>
<td>391.9</td>
<td>436.9</td>
<td>467.7</td>
<td>436.2</td>
<td>419.7</td>
<td>+ 19.6</td>
</tr>
<tr>
<td>Manufactures</td>
<td>354.2</td>
<td>401.5</td>
<td>371.2</td>
<td>367.4</td>
<td>377.4</td>
<td>372.9</td>
<td>+ 5</td>
</tr>
<tr>
<td>All Commodities</td>
<td>409.7</td>
<td>434.6</td>
<td>380.6</td>
<td>397.5</td>
<td>377.5</td>
<td>360.3</td>
<td>- 12</td>
</tr>
</tbody>
</table>

### Table 3.6

**INDEX NUMBER OF WHOLESALE PRICES DURING THE SECOND FIVE YEAR PLAN**

(Base 1952-53 = 100)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Articles</td>
<td>86.6</td>
<td>102.3</td>
<td>106.4</td>
<td>115.2</td>
<td>119.0</td>
<td>120.0</td>
<td>+ 27.8</td>
</tr>
<tr>
<td>Industrial Raw Materials</td>
<td>99.0</td>
<td>116.0</td>
<td>116.5</td>
<td>115.5</td>
<td>123.7</td>
<td>145.4</td>
<td>+ 31.9</td>
</tr>
<tr>
<td>Manufactures</td>
<td>99.6</td>
<td>105.6</td>
<td>108.2</td>
<td>108.1</td>
<td>111.3</td>
<td>122.8</td>
<td>+ 18.8</td>
</tr>
<tr>
<td>All Commodities</td>
<td>92.5</td>
<td>105.3</td>
<td>108.4</td>
<td>112.9</td>
<td>117.1</td>
<td>124.9</td>
<td>+ 25.9</td>
</tr>
</tbody>
</table>

### Table 3.7

**INDEX NUMBER OF WHOLESALE PRICE DURING THE THIRD FIVE YEAR PLAN**

(Base 1952-53 = 100)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Articles</td>
<td>120.0</td>
<td>118.4</td>
<td>123.5</td>
<td>141.0</td>
<td>153.6</td>
<td>168.8</td>
<td>40</td>
</tr>
<tr>
<td>Industrial Raw Materials</td>
<td>145.4</td>
<td>134.7</td>
<td>135.3</td>
<td>146.1</td>
<td>163.3</td>
<td>189.7</td>
<td>30</td>
</tr>
<tr>
<td>Manufactures</td>
<td>122.8</td>
<td>126.3</td>
<td>129.5</td>
<td>133.0</td>
<td>141.2</td>
<td>145.4</td>
<td>18</td>
</tr>
<tr>
<td>All Commodities</td>
<td>124.9</td>
<td>125.1</td>
<td>127.9</td>
<td>135.3</td>
<td>152.7</td>
<td>165.1</td>
<td>32</td>
</tr>
</tbody>
</table>

*SOURCE: Reserve Bank of India, Report on Currency and Finance*
### TABLE 3.8
**INDEX NUMBER OF WHOLESALE PRICES DURING THE THREE ANNUAL PLANS** *(1961-62 = 100)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Articles</td>
<td>145.0</td>
<td>171.0</td>
<td>208.0</td>
<td>197.0</td>
<td>+ 35.8</td>
</tr>
<tr>
<td>Industrial Raw Materials</td>
<td>133.0</td>
<td>158.0</td>
<td>156.0</td>
<td>157.0</td>
<td>+ 18.0</td>
</tr>
<tr>
<td>Manufactures</td>
<td>118.0</td>
<td>129.0</td>
<td>131.0</td>
<td>134.0</td>
<td>+ 13.5</td>
</tr>
<tr>
<td>All Commodities</td>
<td>131.6</td>
<td>149.9</td>
<td>167.3</td>
<td>165.4</td>
<td>+ 25.6</td>
</tr>
</tbody>
</table>


### TABLE 3.9
**INDEX NUMBER OF WHOLESALE PRICES DURING FOURTH FIVE YEAR PLAN** *(Base: 1961-62 = 100)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Articles</td>
<td>199.8</td>
<td>199.8</td>
<td>216.5</td>
<td>250.1</td>
<td>321.7</td>
<td>+ 61.0</td>
</tr>
<tr>
<td>Industrial Raw Materials</td>
<td>186.8</td>
<td>191.0</td>
<td>178.5</td>
<td>235.4</td>
<td>322.6</td>
<td>+ 73.6</td>
</tr>
<tr>
<td>Manufactures</td>
<td>142.8</td>
<td>154.5</td>
<td>165.1</td>
<td>172.4</td>
<td>215.6</td>
<td>+ 50.0</td>
</tr>
<tr>
<td>All Commodities</td>
<td>175.7</td>
<td>180.6</td>
<td>192.3</td>
<td>218.5</td>
<td>284.4</td>
<td>+ 62.0</td>
</tr>
</tbody>
</table>

### TABLE 3.10

PERCENTAGE CHANGE OVER PREVIOUS YEAR BETWEEN 1972-73 and 1978-79 *

(Wholesale Prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-73</td>
<td>10.0</td>
</tr>
<tr>
<td>1973-74</td>
<td>20.2</td>
</tr>
<tr>
<td>1974-75</td>
<td>25.2</td>
</tr>
<tr>
<td>1975-76</td>
<td>-1.1</td>
</tr>
<tr>
<td>1976-77</td>
<td>2.1</td>
</tr>
<tr>
<td>1977-78</td>
<td>5.2</td>
</tr>
<tr>
<td>1978-79</td>
<td>4.4</td>
</tr>
</tbody>
</table>

* SOURCE: Times of India Director, 1981.

As shown in Table 3.4, wholesale prices of all commodities increased by 24.8% between 1947-48 and 1950-51. During the First Plan period, the wholesale prices exhibited a declining trend with minor exceptions. However, the prices in Industrial Raw Materials Group items increased by 19.6% during the Plan period. The country has faced continuous price rise since the beginning of the Second Plan. During the Second Plan prices of almost all commodities went up practically from year to year. The price rise in Industrial Raw Materials Group items was 31.9% during the period. During the Third Plan period, rise of prices in the case of manufactured products was only 18% but that of food articles was 40%. Average price rise in all
commodities was 32%. Prices continued to go up during the three annual plans between 1966-67 and 1969-69.

India faced severe price rise during seventies. During the Fourth Plan, Industrial Raw Materials Group prices shot up by 73.6% and average price rise in all commodities was 62%, leaving annual price of more than 12%. The rise in the second-half of the Plan-period was much higher than that in the first half. As shown in Table 3.10, the price rise in 1964-65 was as high as 25.2%. The wholesale price index (1970-71 = 100) which stood at 182.9 for March 1973 had risen to 190.5 at the end of March 1979 - an increase of 4.4%. The prices of manufactured products such as basic metals rubber and rubber products, leather and leather products advanced appreciably.

In the second week of January, 1980, the economic situation deteriorated all round and continued on that course for the next eight to nine months upto August-September 1980. The general index of wholesale prices (1970-71 = 100) reached its peak at 266.3 in the week ended October 18, 1980, showing an increase of 20.1% over the level of year ago. The All India Consumer Price Index Numbers for Industrial Workers (1960 = 100) had been continuously on the increase from 371 in January 1980 to 406 in October 1980, showing an increase of 9.4% as compared with 9.9% increase in January 1979 to October 1979.

Since mid-October, the wholesale price index showed a downward course, though hesitatingly. The latest index - for the week ended December, 20, 1980 at 255.3 shows a fall of first 3.9% since mid-October 1980, which is less than what is warranted on the eve of a bumper crop.
In this connection, it is interesting to note that Mr. Venkataraman, the Finance Minister of India, in his written reply to Mr. Sunil Maitra M.P.; said on March 5, 1981 that during the last decade, the value of Indian rupee has come down to 49.75 paise which means a loss of 50.25% in the purchasing power of money.

It can be concluded from the above that,

(i) India has been facing considerable price level changes since it became an independent country,

(ii) most of the changes have been of inflationary nature,

(iii) the degree of inflation for last 10 years has touched alarming proportions.

The question is whether this degree of inflation justifies the need for inflation accounting in India. The answer is yes. Mr. Arvindbhai Buch, President of Ahmedabad Textile Labour Association and a national level trade union leader says, "Inflation to a certain degree is desirable. Body temperature between 99° and 99° should not bother but one should worry when it goes below 97° or above 100°. Thus price level changes beyond certain limit should be viewed seriously". Mr. Praful Anubhai, a leading industrialist and past-President of the Ahmedabad Textile Mill Owners' Association believes that, "If the rate of inflation stays at 7% or less than that, there is no need for inflation - adjusted reporting system because it will not make much of a difference in performance evaluation of profit centres. It is only when the inflation exceeds 7% that separate accounting of its effects may be useful". Thus, considering that India has been facing
inflation at a rate higher than 15\% , inflation accounting is very much needed and therefore research on inflation accounting is justified.

The research that has taken place so far also calls for further research on this subject. For example, take studies conducted by Dr. Ramesh Gupta. His study on effect of inflation on profits of Indian companies shows degree of impact of inflation. Managerial implications of the effects of inflation; particularly on working capital management, capital budgeting and management of earnings call also for inflation accounting in Indian context.

The present Study has significance because it is conducted at a time when this type of Study is needed the most. This is particularly so because the need for inflation accounting is already established and this is the time when we should think of appropriate system and structure for inflation accounting in present context. Since development of only a technique will not help, systems approach will be more helpful. Findings of this Study, the proposed model of inflation accounting system and broad guidelines for its implementation should help all concerned.

This Study will be found useful by various groups in the following ways.

1. Company Managements : An effort is made to develop a model for price-level-adjusted information system. Broad aspects of system design and implementation are also covered. This will be helpful to

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managements in incorporating financial effects of price level changes in their decision-making systems.

2. Government and Its Various Agencies: The Study also takes a macro view of the inflation accounting system. This aspect is crucial because even the effectiveness of company-level system will be largely influenced by the macro level system. Provisions of various laws on taxation, depreciation, profit distribution and disclosure in published annual reports will affect a company management's attitude towards inflation accounting. Government agencies like taxation authorities, company law administration and Bureau of Industrial Costs & Prices (BICP) will get an opportunity to review their policies in the light of the findings of this Study.

3. Investors and Other End-Users: Since the Study aims at developing micro as well as macro level system, an effort will be made to maintain uniformity in both. This will provide to investors and other end-users more reliable and comparable information for their decision-making. Thus the findings of this Study will be useful to investors in taking better investment decisions to union leaders in basing their negotiations on more reliable data, and to financial institutions and suppliers in knowing the true profitability and financial position of their customers and in more effective follow-up.

4. Professional and Other Bodies: The broad framework of the proposed systems and guidelines for their implementation will be useful to professional bodies and other institutions in assessment and planning of their roles and activities. The reason is that findings of the Study will include an evaluation of the role, so far played by them; and expectations from them under the proposed system.
In short, the findings of this Study will be useful

(i) to company managements by providing to them a system for more useful information for their decision-making;

(ii) to government and its agencies, by providing to them better parameters for evaluation and review of their policies and by helping them in improving the reliability of the raw data they generate and supply to company managements;

(iii) to investors and other end-users, by providing to them a system for comparable and uniform information for their purposes; and

(iv) to professional and other bodies, by helping them in assessment and review of their role and activities in the light of the proposed inflation accounting system.

6 SUMMARY

This Study is the first step in the direction of inflation accounting system for India. Instead of focusing only on development of a technique, it attempts to develop a system of inflation accounting in its broad sense. The main purpose is to take a systems view and to cover all the related aspects of system design and implementation.

The strategy adopted was to generate basic data required for system design and to develop a model on the basis of nature and degree of the need for inflation-adjusted information. This is the reason why all concerned groups were covered through questionnaires and interviews.
Looking to the present state of Indian economy, government's plans for industrial development and managements' attitudes; such a study should be useful to all the concerned groups by providing to them reliable and comparable information for their decision-making.