CHAPTER 8

A BIRD'S-EYE-VIEW OF CONCLUSIONS AND SUGGESTIONS

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1 BACKGROUND OF THE STUDY

Price level changes, mostly of inflationary nature, are a common feature of all economies of the world. A review of price level trends in various countries shows an upward tendency of price levels. India is no exception to this. In fact, we have been facing a continuous rise in prices for the last many years and it has become a major cause of concern for everyone, beginning from a small wage-earner to the government. Like individuals, business enterprises are also affected by inflation.

Conventional accounting system, which is based on historical costs, is used for external reporting by companies and for managerial decision making. This system fails to bring to light the effects of price level changes on the financial performance and financial position of a business enterprise. To that extent, it also misguides management in its decision making. Since the beginning of this Century and particularly since the publication of Sweany's "Stabilized Accounting", a large number of researches have taken place on the need for price level adjustments to historical accounting-based data, techniques of adjustments etc. These studies have very well established the need for "Accounting for Changing Price Levels", i.e. Inflation Accounting, for the purpose of external reporting as well as for managerial decision making. In India too, researches have shown that inflation has considerable impact on business enterprises and that HCA-based reporting needs to be rectified.
2 THE STUDY

This Study picked up its thread from the Studies that have established the need for inflation accounting and have attempted to measure the effects of inflation on profits. Considering the fact that a technique of inflation accounting is only a part of the System and that the controversy over technique has fairly cooled down in the world, it was decided to make an attempt to develop a model for inflation accounting in India. Such a model was expected to give a broad framework for external reporting through published annual reports as well as internal reporting for managerial decision making.

Variables affecting the systems for external and internal reporting were identified and data were collected through questionnaires, interviews, case studies and observations.

3 FINDINGS AND CONCLUSIONS

Given below is an overview of some important findings and conclusions.

(i) No system of inflation accounting will be successful in India unless and until it received a total and active support from the government.

(ii) It must be accepted by all concerned that inflation is a cost to be recovered. Financial effects of inflation must be measured and business units compensated for inflation-loss at the time of price fixation & review, determination of taxable profit and similar other situations.
A couple of multi-nationals having formal inflation-accounting systems are good case studies to be made.

(ix) Practitioners, finance executives and other managers have all the potential needed for designing and running inflation accounting system at micro-level. However, they will have to be educated and trained in some aspects of the System.

(x) Looking to the need and level of non-institutional investors and practices followed by institutional investors, external reporting of price-level-adjusted information will have to be very short, simple and relevant for them. This also calls for training and environment-building.

(xi) It will be impossible to generalise on the model for managerial use of inflation-adjusted information at micro level.

(xii) Since force of law is not to be used in the beginning, motivational forces will have to be applied. Secondly, considerable amount of efforts will be needed towards environment-building, research and experimentation.

4 THE PROPOSED MODEL

Main features of the proposed Model are given below.

(1) Two specialised agencies, viz., System Monitoring Agency and Price Indices Agency.

(2) Total action plan, divided into various phases.
(3) Government as the key-force behind the total System.

(4) Motivation to be provided through tax assessment on inflation-adjusted profit, recognition of inflation-cost for price fixation and reviews and rewards from various agencies.

(5) Long term objective for external reporting: CCA-based and audited partial restatement of conventional financial statements on supplementary basis as a statutory requirement. The process to begin with recognised WPI specially compiled for inflation accounting. Later on, switch over to CCA-based system when the favourable environment and the required infrastructure are developed. "Shareholders' Statement of Adjusted ROI" as a part of the external reporting requirement.

(6) "Inflation Accounting Cell" at micro level. No generalisation of the system within the enterprise.

(7) Continuous emphasis on research, training and environment-building.

(8) Clear role-assignment to supportive agencies like the government and its agencies, managements of business enterprises, professional bodies and merchant bodies.