Abstract

Price level changes, mostly of inflationary nature, are a common feature of all economies of the world. Like an individual, business enterprises are also affected by price level changes. Researches have shown that conventional, Historical Cost Accounting (HCA) model of accounting fails to measure and report the financial effects of price level changes to the end-users of financial/accounting information in their decisions. Considerable research has also taken place in the field of technique development for inflation accounting.

Picking up its thread from researches made, existing gaps therein and the nature and degree of inflation in India, this Study was designed with a view to develop a broad, conceptual model of inflation accounting system in India. The said model was expected to cover price-level-adjusted external as well as internal corporate reporting. Variables affecting the systems for external and internal corporate reporting were identified and data were collected through questionnaires, interviews and case studies.

It was observed that Indian Business is well-aware of the financial effects of inflation and many business enterprises have developed informal and crude techniques and systems for measurement and reporting of the effects of inflation and for taking them into account in their decision-making. Formal, comprehensive systems of inflation accounting are rarely found. Many companies have also
attempted to incorporate inflation-adjusted financial information as a part of their published annual reports. It was also noticed that business executives, practitioners, investors and other concerned groups are quite aware of the need for inflation accounting for internal purpose as well as for external reporting. Views of those who have experience of designing and/or implementing inflation accounting system and the present status of various components of the structure have shown that, though a great potential lies for an efficient system, a lot will have to be done.

It seems that the inflation accounting system for external reporting can aim at CGA-based, partial restatement of financial statements as a supplement to the conventional, HCA based financial statements. This goal will have to be achieved through a phased programme of implementation. In case of inflation accounting for internal use, it is difficult to generalise the system within a business enterprise. However some broad generalisations are possible.

It is strongly felt that the government's attitude towards inflation accounting will be a major factor deciding the success or failure of the system. Loss due to inflation must be recognised as a cost and business enterprises must be allowed to recover it. This must be considered at the time of income tax assessment and, price fixation and review. This aspect has its legal and behavioural implications. A very efficient infra-structural base will be a prerequisite for the inflation accounting system.
The Study recommends (i) two specialised agencies viz. System Monitoring Agency and Price Indices Agency, (ii) a phased action-plan, (iii) amendments in existing legal framework, (iv) Inflation Accounting Cell at unit-level, (v) Continuous emphasis on research, training and environment-building and (vi) a clear role-assignment to supportive groups and agencies. Bringing all the concerned agencies and groups together and motivating them towards the goal-achievement is a task by itself. But it is not impossible. What is needed is an open-minded approach and a strong commitment on the part of the Government who will have to take lead in the matter.