FINDINGS AND SUGGESTIONS

Managing inflation, appropriately called inflation accounting due to upward trend in prices has caught the fancy of many professionals, financial bodies and even the government. During current years, while presenting the central budget government has given the first priority to the inflation management. Though several problems and difficulties are associated with inflation management, yet the management of business concerns in particular is not freed from its duty to show the effects of inflation on the profit and capital invested. Failure to do so, will mean that the true economic significance of transactions is not being shown and the management itself, owners, employees and all other are presented with a picture, which is inaccurate and misleading.

Despite serious limitations e.g. choice of price index, subjective involvement in the estimations, mistaken notion of replacement cost, departure from conventional accounting system, lack of universally accepted method of purchasing power adjustments and non recognition by tax authorities and government bodies, it is desirable to neutralise the effects of inflation. This goal can be achieved by determining the profit through due weightage given to current economic conditions, avoiding the erosion of effective
capital and providing sufficient funds for replacement of fixed assets.

Some broad based suggestions to cure the ill effects of inflation may be as follows:

1. The capital output ratio must be tried to be lowered.
2. Alteration in factor proportions should be affected.
3. A shift to labour intensive techniques should be made.
4. Savings should be promoted.

In addition to these the government and professional bodies in India should give a serious thought to this challenging minance. The government has to come forward with necessary amendments and incorporating relevant provisions in existing laws and enact the separate law if the need be e.g.

1. Making mandatory to prepare financial statements (which provide adequate financial statistics for future planning/showing. The effects of inflation and allow tax laws to recognise the inflation adjustments.

2. Professional bodies particularly the Institute of Chartered Accountants of India and Institute of Cost and Works Accountants of India should form
a joint coordinating body in this regard. The bodies should (a) keep the liaison with sister international bodies and institute of developed countries. (b) re-evaluate the accounting practices and (c) issue guidelines from time to time. In conformity with the widely faced problem of incorporating the effects of inflation in accounts to make accounting and financial information a reality to serve the purpose of management internally and of owners - government, financiers, labour, consumers and others externally. In epilogue, it may be emphasised that the inflation information management is one of the crucial matters which must engage the attention of all concerned and involve deep research, open discussions and deliberations at micro and macro level for working out an effective solution to the problem.

For utilization of techniques and technology of financial reporting in a period of inflation to provide management tools for fighting inflationary trends, there is an urgent need for change in methodology of accounting. This has to be superposed on the continuing improvement in the technology of interpretation of accounting data, for evolution of management tools leading to maximisation of productivity and optimisation of profit (or benefit) for maximisation of socio-economic welfare of the people as well as improvement in the status
of their happiness. This involves the reorientation in the outlook, thought processes and behavioural pattern of accountants in all walks of life. Delay in development and utilization of techniques and technology of information system is likely to lead the considerable erosion of credibility in the integrity of accounting profession by managers, administrators, executives, investors, government agencies and the "people". The need for early development and utilization of the techniques and technology of inflation information system on these lines, at least in a rough form is urgent in view of the high rate of inflationary trends faced by India in recent years.

All quasi commercial departments of central government, state and local governments engaged in the production of goods and services should utilize the technology of commercial and management accounting for maximisation of their productivity. Performance and financial budgeting, cost benefit analysis, modernisation of accounting, reporting and audit processes, should be reoriented and effectively utilized as tools for maximisation of productivity of government operations at various levels and social service Institutions. This appears to be far more urgent for achievement and maintenance of a reasonable price level in India.

There is an urgent need of a appropriate programme of researches for evolution of simpler techniques of inflation accounting and reporting its effects.
All the wasteful expenditure must be contained and eliminated inorder to reduce the thrust of inflation in government as well as private departments. The profits generated by the units must be examined whether it is a quality profit? "Quality Profit" means, if it is going to contribute towards national income and wealth maximisations.

The problem of utilisation of replacement cost (RC) as against utilisation of appropriate indices indicative of current purchasing power (CPP) of the currency unit is again a matter of logistics as distinct from that of substance. Pending sophistication of the system, the CPP of currency unit as indicated by the trend of average whole sale prices of all commodities as compiled by the Economic Advisor to the Government of India may be used for revaluation of non monetary assets and liabilities, in partial revaluation accounting for providing managerial and administrative tools for control of inflationary trends in India. Similar data may be used by other countries, depending on general convenience and availability of indices.

There is a constant need for review of the components and relative weightage in respect of details of items included in the list of commodities for ascertainment of the average wholesale price indices as compiled by the Economic Advisor to the Government of India.
It would not be irrelevant to quote the recent government efforts in this direction the efforts are as follows:

The existing series of index numbers of WPI (base 1970-71) is to be replaced by a revised series with 1980-81 as base year from July 1989. This is being done in accordance with recommendations of a working group set-up under the Chairmanship of Dr. C. Rangarajan Deputy Governor of Reserve Bank of India. The new series will have as many as 447 items and 2371 quotations against 360 and 1295 respectively in current series. Seventy five, distinctly new items have been added, 54 dropped, 32 expanded into 100 and 4 items amalgamated into two.

Some of the important items that enter the wholesale price index, goods basket for the first time are LPG, naptha, bitumen, imported edible oil, instant coffee viscose and synthetic filament yarn, wollen and cotton hosiary, shirts, PVC pipes and tubes, newspapers, LDSE, caprolactum, stainless steel, lather, jeeps, papaya, graps, poultry chicken, pork, garlic, sunflower, fodder, ginger (fresh) and coconut (fresh).

To provide adequate tools to the people to fight against the scourge of high prices and prevalent inflation psychosis and for development of multidisciplinary diagnostic techniques for analysis of causes and factors tending to
auto built up of the auto-feeding inflationary spiral with its peculiar cannibalistic tendencies, urgent live researches, under existing ground conditions are necessary for reorientation of the dynamics of information technology pertaining to-

1. Management information system of commercial enterprises in public and private sector (MIS).

2. Administrative information system of government department as well as their field officers and agencies of union state and local levels extending from top level of policy makers to the ground level workers in villages.

3. Public information system through various mass communication media like the radio, television, newspapers and magazines (PIS).

All steps must be conducted with a view to determining the feasibility of reorientation of internal as well as external accounting and audit reports, to focus on the strength of organisations and enterprises, as distinct from the existing practice of focus on their weaknesses, failures and inadequate attainment of defined objectives and goals. This could also include focus on the strength of the people who control and operate the enterprise or the organisation as distinct
from a focus on only those who are responsible for failures.

The technology of inflation accounting requires urgent researches from the angle of reorientation of the dynamics of information technology in respect of MIS, GIS and well as PIS.