PREFACE

Inflation has become an important and constant fact of life in almost all the countries of the world. This has attracted wide attention in financial accounting in the last few decades. The term ‘inflation’ which means either an increase in general price level or decrease in purchasing power of money came into use in the latter half of the 19th century and into general use in about 1915 during the First World War. In India, it was started in the beginning of the Second World War. Therefore, the inflationary trend has become one of the realities of economic life. The economic activities of business are recorded by the present historical cost accounting system that applies money as the common scale of measuring all activities. As the money scale of measurement is continuously undergoing changes, the financial statements prepared on historical cost basis presented a highly distorted view of the income and financial position of business concerns. Income is highly overstated with the result that higher taxes, bonuses and dividends are to be paid. This resulted in erosion of capital of a company. Inventory is not realistically valued. Fixed Assets shown in the balance sheet become a meaningless conglomeration of resources purchases at varying costs in different years. Depreciation charge was for less than it should have been. The inflation-affected financial statements hampered the ability of investors, creditors and others to derive useful information to make proper investment decision. As a result a feeling is cropping up in India among accountants, members of professional bodies, research organizations and academics that keeping in view the drawbacks of historical cost accounting, there is a need to restructure historical cost based financial statements for accurate measurement of profit and reliable reporting of financial
position. Inflation adjusted financial statements would not only achieve the objective of reliable profit and financial position measurements but would also prove useful to managements and external users in their decision-makings.

Therefore, there is a need to study, in depth, inflation accounting practices in Indian companies. This study will therefore, examine the existing system of inflation accounting as it operates in Indian corporates.

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