PREFACE

Politico-economic efforts for physical attainment of self sufficiency, techno-economic independence, a reasonable standard of living by masses and a higher status of social happiness in developing countries require price stability at reasonable levels. Stability of prices at reasonable levels is far more essential for India in view of the grinding poverty of the people and simultaneous underutilisation of her human resources and gifts of nature as well as other productive factors. Our economy in recent years has experienced steadily rising prices and a consequent fall in the the value of money. A study in this respect has revealed that in 1970 terms the real value of Indian rupee fell from 100 paise in 1970 to 76 paise in 1973, 56 paise in 1978 and now in 1980 it has fallen to 45 paise.¹ There is every expectation that price increases will continue and there will be further reduction in the value of money.

Our present or traditional accounting system is based on the assumption that a stable price system is in operation and there is no fall in the value of money. But owing to wide spread inflationary conditions these assumptions have proved to be wrong. There are various parties

¹ Commerce, Bombay, March 7, 1981.
viz. management, government, shareholders, investors and financial analysts who rely upon the published financial statements of business entities viz. profit and loss account and balance sheet. As these statements are prepared under historical cost accounting system, a number of distortions arise in them under inflationary conditions and they do not provide meaningful information to their end users for decision making purposes. For example traditional accounts do not provide information about how much profit must be retained in the business for financing the replacement of its existing assets, whether the real value of the capital originally contributed has been maintained continuously during the life of the business and whether the real profits earned have increased, decreased or remained constant and the financial position of the business in terms of current money values. The provision of such type of information will enable the business to take steps to ensure that real capital is, in fact, maintained and not distributed under the guise of money profits, to disclose the real trend in profits earned and to make plans for the future in conditions as they exist at present and not as they existed in an irretrievable past.

If prices are changing at a rapid rate, conventional accounting reports become extremely unsatisfactory. For many years accountants have resisted change in the hope that inflation will disappear or be reduced to an insigni-
ficant level. Now the increasing rate of inflation has made accountants think very seriously about the adequacy of traditional accounting methods which in many respects have been based on the assumption of stable price level system in operation. Now in many countries of the world accountants are actively concerned with finding a system of accounting during inflationary conditions which may incorporate the effects of price level changes into accounts so that they may become realistic models of the affairs of the business.

If we want that true and fair position should be revealed by accounting statements during a period of price level changes, we shall have to introduce certain changes in principles and techniques of conventional accounting so far adopted by the business concerns for financial reporting purposes. In the present study an attempt has been made for ascertaining the fact as to how inflation distorts our accounts maintained under historical cost accounting system and for suggesting the ways in which present accounting system can be improved. In first chapter a general discussion has been made about the present accounting system and problem created by the price level changes, in second chapter a case has been made for the introduction of price level accounting system by making an examination into the price level changes during the course of the history and in third chapter the relationship of money, prices and accounting has been discussed for explaining that accounting is concerned with the
recording of money values and every rise or fall in the value of money creates distortions in our accounts. In chapter fourth a detailed discussion has been made about the deficiencies that are present in conventional accounting statements in a period of price level changes. This chapter has been divided into eight sections for explaining clearly the effects of price level changes on depreciation, cost of sales figures, monetary items etc. In chapter fifth a discussion has been made for accountant's responsibility during a period of price level changes in respect of producing realistic and up-to-date accounting information in terms of current money values so that more rational decisions may be made for socio-economic betterment of the people. In chapter sixth a discussion has been made about the effects of price level changes on cost accounting operations in case of manufacturing concerns and for ascertaining its ultimate effect on budgeting, standardisation, managerial decision making and pricing of products etc. In chapter seventh a detailed study has been made about the different approaches to price level accounting which have so far been developed and in chapter eighth we have made a general discussion of current price level accounting practices adopted in different countries of the world including India. Lastly in chapter ninth we have attempted for bringing together the very considerable amount of price level accounting material with the objective of providing some positive recommendations.
regarding a way forward in our present financial reporting difficulties and suggesting the areas in which progress can be made.

A work of this nature would not have been possible without the co-operation of a large number of eminent personalities in education, business and government. I am deeply indebted to Dr. I.C. Gupta, Ex-Dean, Faculty of Commerce, Kanpur University, Kanpur under whose able guidance and patient supervision this work has been completed. Without his constant encouragement and inspiration this work would not have seen the light of the day. I am also thankful to Dr. B.M.L. Nigam, Professor and Head, Department of Commerce, Delhi University, Delhi and Prof. B.M. Agrawal, Department of Commerce, D.A-V. College, Kanpur with whom I had fruitful discussions on a number of occasions. I am also thankful to the librarians of the Institute of Chartered Accountant, Kanpur, D.A-V. College, Kanpur and Kanpur University, Kanpur who fully co-operated with me during the course of this study.

Kanpur
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May 7, 1982

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