

THE IMPACT OF INFLATION ON ACCOUNTING

By

Teresa F. Bernabe*

Introduction

Reporting problems under inflationary situations are not new. They have been one of the major bones of contention in the accounting profession for the past half century or so and the current double digit world inflation has reawakened interest in these issues. In the Philippines, general price levels went up steeply¹ after the institution of the floating rate in 1970 and the oil problem in 1973, making reporting problems as important an issue here as it is in the rest of the world.

It is *not* the purpose of this paper to define inflation, explain its causes, or consider ways of eliminating it. Basically, the objective of this paper is two-pronged. First, the significant aspects of the inflationary effects on financial reporting will be discussed through a definition of the reporting problems, an examination of the cause or causes of the problems, and an analysis of the alternative propositions to overcome them. The second purpose of this paper is to discuss the reaction of a sample of companies and certain pertinent institutions to the reporting problems explained in the first part. Consequently, a survey of the applicable reporting practices and accounting policy changes of twenty-eight leading corporations was conducted. The firms belong to the top 200 corporations as to sales and they form a part of the forty corporations requested to participate in the survey. It is believed that these companies have both the financial as well as the technical capability to initiate reporting changes.

Selected personnel of the Philippine Institute of Certified Public Accountants (PICPA), the National Economic Development Authority (NEDA), the Bureau of Internal Revenue (BIR), and the

*Mysp, Gorres, Velayo and Co. Assistant Professor of Accountancy.

¹See for example "Taking the Measure of Last Year's Profits," *Business Week*, March 9, 1974, pp. 133-134, and the *Central Bank Statistical Bulletin*, 1974.

Securities and Exchange Commission (SEC) were interviewed. In addition, the results of the survey were counterchecked against financial reports submitted by the sample companies to the SEC. After an evaluation of the results, conclusions and recommendations are given.

The Effects of Inflation on Financial Reports

What happens to historical cost-based financial reports when monetary instability is high? When the balance sheet effects² are considered, the so-called non-monetary items such as slow- or moderate-turnover inventories, receivables, and fixed assets, will be generally understated during inflation. By their very nature, items like cash and current and monetary liabilities will not be affected. The peso equivalent of assets whose costs are accumulated and then amortized over a period will become a conglomeration of pesos with various purchasing power. The peso amount of these various financial variables becomes distorted and practically noncomparable, and therefore less reliable and less useful.

Considering the income effect, the understatement of significant expenses, like cost of sales and depreciation, will result in the so-called "paper or price profits." Hence, the net income figure becomes a doubtful quantity.

The example below will show the effect on profit when price change from one period to the next period and when costs of the first period are matched against revenue in the second period. Note that if prices do not change subsequently, no further effect is manifested.

If merchandise is purchased for P80 at a time when its selling price is P100 and is sold in the following year for P125 after all prices, including the cost and selling price of the merchandise, has increased by 25%, what is the income to the owner? Conventional accounting practice would present a reported income of P45 (assuming no expense other than cost of merchandise), representing a rate of return of 56% ($P45/80$) on the original investment of P80. In terms of the current purchasing power, however, the firm's

²Eldon Hendrikson, *Accounting Theory*, (Illinois: R.P. Irwin, Inc., 1965), pp. 161-190. See also *Accounting Principles Board Opinion No. 6* and *Accounting Research Bulletin No. 43*, AICPA.

purchase only P25 more merchandise now than it could with the original investment. Its income, therefore, was only P25, representing a rate of return of 25% on its investment of P100 (the original investment expressed in terms of the current purchasing power). Notice the unrealistic profitability under conventional reporting procedures.

In the next example, which involves depreciable assets, the effect of price-level change is felt as long as these fixed assets are in use even though the price level changed only once. In this situation, the effect of price-level changes on reported income and the rate of return on investment can be demonstrated.

Assume that the price level of all commodities increases at the end of year t from a level of 100 to a level of 200, which remains constant through year $t + 1$. Depreciation is believed to be calculated on the straight-line method and, in accord with conventional accounting procedures, is based on historical cost.

Depreciable properties are assumed to make up 45% of investment at the beginning of the period, with cash and receivables comprising the rest. No inventories are included in order to isolate the effect of price-level changes on fixed assets and depreciation. The fixed assets are assumed to have a life of 10 years with no scrap value while liabilities are assumed to remain constant at P20,000. Dividends in the amount of P15,500 are assumed to have been paid during the year. Using conventional accounting practices, the income statement for the year $t + 1$ and the balance sheet at the end of that year would appear as follows:

Income Statement		Balance Sheet	
Revenue	P100,000	Assets:	
Less:		Current Assets:	
Current expenses	80,000	Cash and A/R	P 59,500
Depn. (10% of P45,000)	4,500	Fixed Assets (Cost	
	84,500	less Acc. Depn)	40,500
Net Income	<u>P 15,500</u>	Total Assets	<u>P100,000</u>
		Liabilities & Capital	
		Liabilities	P 20,000
		Capital Stock & RE	<u>80,000</u>
		Total Liabilities &	
		Capital Stock	<u>P100,000</u>

Adjustments to the current price level in the year $t + 1$ require the revaluation of fixed assets to P90,000 and depreciation to P9,000 (Capital stock and retained earnings are not adjusted in the example.) The statements adjusted for the price level changes would then appear as follows:

Income Statement		Balance Sheet	
Revenue	P100,000	Assets:	
Less:		Current Assets:	
Current expenses	80,000	Cash and A/R	P 59,000
Depn. (10% of P90,000)	9,000	Fixed Assets (90,000	
Total expenses	<u>P 89,000</u>	- P9,000)	<u>81,000</u>
Net Income	<u><u>P 11,000</u></u>	Total Assets	<u><u>P140,000</u></u>
		Liabilities and Capital:	
		Liabilities	P 20,000
		Capital Stock & RE	75,000
		Revaluation Surplus	<u>45,000</u>
		Total, Liab. & Cap.	<u><u>P140,000</u></u>

In the above example, traditional accounting methods overstated net income by P4,500, or by about 40% of the adjusted net income of P11,000. The rate of return on stockholders' investment under conventional methods (based on year and investment) is 19.1% (15,500/80,000). After making the adjustments, the rate of return on the stockholders' investment is 9.1%, less than half the unadjusted rate. Even if price changes do not occur subsequent to this, similar distortions of reported net income and the rate of return will occur under conventional practice in each year until the existing fixed assets have been replaced.

Both examples show that unless an accounting method is used which preserves to the greatest possible extent the purchasing power of a firm, the profitability of a firm might be grossly misleading and that part of the dividends distributed might be liquidating dividends. They show clearly that during periods of inflation, a firm needs more and more pesos to maintain the same volume of business. Information necessary for management to conserve the capital entrusted to its care can not be provided by the above traditional method. Unfortunately, data prepared under such methods are burdened by a profitability illusion.

The major accounting problem, therefore, lies in the inability of conventional reporting methods to clearly portray the results of operation and the financial condition of the firm during periods of great monetary instability. This results in the inability of the traditional reporting methods to meet information requirements of both management and outsiders. External reports are the ones particularly affected since they have to be presented under generally accepted accounting principles. Internal reports are not restricted by such principles and therefore can be easily adjusted or changed according to the requirements of management. But the analysis does not end here as other questions must be considered. What, for example, are the causes of the inability of historical cost method to clearly present financial condition and operating results? Is the problem inherent in the historical cost method, or is it due to some other factor independent of the historical cost? Will the problem of clarity and usefulness be resolved if historical cost is given up?

Tracing the Root of the Reporting Problems

Going over the literature on inflation accounting, one easily discerns that so many leading accountants blame the historical cost for all the reporting inadequacies and deficiencies during periods of monetary instability.³ Many have advocated the supplanting of the historical cost by the current value accounting or by supplementing and, hence, updating historical cost information.

It must be pointed out, however, that at the *time of recording*, the *historical cost was a current cost*. It is due rather to the instability in the value of the measuring unit — the peso — that historical cost becomes stale and almost meaningless. It is to be observed also that even with the use of current value methods such as replacement cost or appraisal method, such valuation or measurement problems supposedly caused by the historical cost method will still persist because *the appraisal replacement costs of today become the historical costs of tomorrow*.

³ Robert K. Martz, "A Few Words for Historical Cost," *Financial Executive*, January 1973, pp. 23-27; Cecilia Tierney, "Price Level Adjustments Problem in Perspective," *The Journal of Accountancy*, November 1963, pp. 56-60; W. Ali-shant, "Some Further Comments by Representations of Various Organizations Which Have an Interest in the Outcome of the Fair Value Decision," *Financial Executive*, January, 1973, pp. 52-58; R.T. Sprouse, "Historical Costs and Current Costs — Traditional and Treacherous," *The Accounting Review*, October, 1963, p. 887.

Revaluation costs, if taken up in the books, will become as dated and as stale as historical cost if and when there are changes in the economy producing significant changes in the value of the measuring unit, the peso. Such recorded amounts of replacement cost or appraised values have also to be updated just like the historical cost method if they are to maintain their usefulness. The basic cause of the defects, therefore, does not seem to lie with the use of the historical cost but rather with the use of money as a measuring device. Money has variable purchasing power under various economic situations. Its value, like other values, is ephemeral and changes with the economic and political conditions not only of the nation but also of the world. For as long as accounting measurements are expressed in terms of this variable yardstick, the problem of overstated profits and understated assets during inflation will remain. Hence, both historical and current cost methods will require periodic updating to maximize their usefulness since both are expressed in terms of a very fluid standard, namely, the peso.

One may ask: is there any alternative to money as a measuring device? Yet this question could very well floor the accountant and push him to the wall. Perhaps in the future, man will be able to overcome this problem by discovering a better measuring device. For the present, there are a variety of proposed remedies to minimize these reporting difficulties⁴ but they can be categorized under two major non-mutually exclusive alternatives. One is historical cost based. Under this are the familiar unnatural cost flow valuation technique used on inventories and cost of sales, last-in-first-out (Lifo), and accelerated depreciation, which are applicable only to specific types of assets like inventories and fixed asset depreciation. Their biggest disadvantage is that their results still amount to cost and not current values. Another cost based technique is the price-level-adjusted statement which calls for the use of a general price index to adjust the conglomeration of pesos of various purchasing power to a common purchasing power. It does not however result in current values. It gives historical cost stated in terms of a common purchasing power.

The other major option is current value accounting. In some of the techniques under this concept, certain pertinent items of the balance sheet and income statement are taken up at current value.

⁴ These sources are presented in the bibliography attached at the end of this paper. Refer also to Appendix A and B.

inventory and costs of sales, for instance, may be expressed at the fair market value of the goods while fixed assets are taken at appraisal values. The other alternative techniques adjust all items, except monetary items, to present values.

Appendix A gives a listing of these various techniques while Appendix B contains an appraisal of the two major alternatives (cost and current value) with a catalogue of their advantages and disadvantages. Both appendixes appear at the end of the paper.

Among these alternative techniques, which are favored or endorsed by professional and regulatory institutions in the Philippines?

The PICPA Stand

PICPA, the biggest association of CPAs in the country, issued a guideline on fixed asset revaluation accounting under Special Bulletin No. 2-17 dated November 1971, and effective for fiscal periods ending on and after December 31, 1975.

In effect, the Bulletin stated that the ideal situation for recognizing price-level changes in property and equipment would be the availability of revaluation coefficients or indices which would be the basis of revaluation. In the meantime, since such revaluation coefficients had not yet been established, the use of appraised values would be used as an acceptable alternative to historical cost; but, they would not be mandatory for the valuation of fixed assets.

Under the Bulletin, appraisal values can be considered generally acceptable for reporting if the following requirements are fulfilled:

1. The appraisal should be made by experts or specialists not connected with the company that owns the property.

2. The appraised values, accumulated depreciation on appraised values, depreciation on appraisal, excess of appraised values over cost, and date of appraisal should be disclosed in the financial statements or notes. To allow comparison of financial position and results of operations with companies using historical cost, the historical cost and depreciation on historical cost should be disclosed.

3. The net excess of appraised values over cost should be shown

under a separate caption such as "revaluation adjustment," "revaluation increment in property," or "appraised values over cost," and should not be made available for dividends. However, the portion absorbed through accumulated charges of depreciation on appraised increment may be declared as stock dividends.

4. Depreciation charges to operations should be based on the appraised values.

Right after the declaration by the government of the floating rate exchange policy in February 1970, PICPA issued Special Bulletin #1-70 dated March 1970 to take care of untoward changes in foreign exchange rates. This Bulletin allowed, as addition to the cost of imported properties, increase in the amounts of liabilities incurred out of such importations due to devaluation or other adverse change in foreign exchange rates, except when such properties were already retired before payment.

As to whether these recommendations are being implemented or not will be seen from the results of the survey.

The SEC Dilemma

The SEC supports the recommendations and policies of PICPA except in one aspect, namely, the amount of retained earnings available for dividends. In case a company appraises its assets and takes depreciation based on appraised values, retained earnings for dividend purposes should be adjusted to the amount where depreciation is based on cost. In effect, it should be the accumulated earnings without appraisals. The rationale behind this is that SEC suppose to protect the stockholders' interest. Hence, a recent rule of the Commissioner issued in February 1975 states that decisions on the disposal of earnings and the preservation of firm interests should be left to the stockholder.

The SEC allows *lifo*, accelerated depreciations, and revaluation assets. Like PICPA, price-level adjusted statements are not allowed. In the words of Mr. Casiano Endriga of the SEC who is also a member of the PICPA Committee on Accounting Principles: "Not yet. We are studying the matter now. However, should inflation worsen, we might possibly have price-level adjusted statements with the use of the consumer price index."

However, accounting principles or guidelines are not one of the SEC's worries right now, since PICPA is taking care of that end. Its big dilemma concerns the public accountants. The SEC expressed doubt on the reliability of the work of so many CPAs, especially the small or individual practitioners. Except for big names like Sycip, Torres, and Velayo (SGV), Cunanan and Co., Valdez and Co., and others, disclosure of material items and even of ordinary information like the valuation of inventory, basis of valuing fixed assets, and such similar data are difficult to come by. To minimize problems, SEC financial analysts accept only "clean" audit reports or reports without qualifications or disclaimer.

This is a very basic problem of the accounting profession itself, a profession which owes its existence to public confidence. This problem, however, is outside the purpose of this paper. Its only relevance here is in showing that the lack of disclosures certainly compounds the difficulties encountered with financial reports.

BIR and NEDA Policies

BIR personnel claim that, generally, accounting principles are followed in the determination of taxable income, but depreciation based on revalued amounts is not allowed due to its adverse effect on government income from taxes. When asked about the likelihood of policy changes on this expense item, those interviewed replied that this policy question should be referred to NEDA.

Interviews with NEDA personnel revealed that the government, under the current economic set-up, is not likely to favor any diminution of income from taxes since the government depends on taxes and borrowing. But one can borrow only so much, as borrowing is also inflationary. The Director of NEDA espouses this view in his various published works. In one of his writings on *Taxation and Progress*, he pointed out that compared to other Asian countries, the Philippines is a "glaring under-achiever" when it comes to taxes.

It was pointed out however that if NEDA can not be of help in this way, it can be of use in another manner. Commodity indices which could possibly be used for revaluation purposes are being worked on.

What the BIR allows are the partially applicable cost-based

methods, *lifo*, and accelerated depreciation.

Within the inflation reporting framework established by PICPA, SEC, BIR, and NEDA, how did some leading corporations respond? What practices were adopted for external purposes or for internal reporting purposes? It must be reiterated here that internal reports are not governed by generally accepted accounting principles. As has been mentioned earlier, the attempt to answer these questions was made through a survey of the reporting practices of twenty-eight leading corporations in the Greater Manila Area.

The Survey

Sample Characteristics

The sample is made up of thirteen manufacturers and wholesalers, two financial institutions, three mining companies, one fishery corporation, eight merchandising concerns, and one major public utility corporation. As has been stated elsewhere, all of them belong to the first two hundred corporations as to sales. Sixty-nine percent are capital intensive and inventory is an important current asset for ninety percent of them. The questions in the survey centered on reporting practices on two major assets that are usually significantly affected by changes in the purchasing power of money — fixed assets and inventories. Controllers and/or chief accountants were interviewed and the results of the survey were cross-checked with reports available at SEC. The reporting practices covered in the survey are inventory valuation, fixed asset valuation, depreciation practices, use of indices, and the pertinent retained earnings for dividend declaration.

External Reporting Practices

The most popular inventory valuation technique is the average method. Around 36.8% of the sample use it. Thirty-four percent use the moving average and 2.8% use the weighted average. Next in line is the cost-flow method first-in-first-out (FIFO) patronized by twenty-four per cent of the samples. Last-in-first-out (LIFO), one of the cost-based techniques proposed to help lessen reporting distortions on inventories, came next with 22%, followed by specific identification with 10.4%. The least used methods were cost or market, which is lower, and latest market which are practiced by a mere 3.4% of the sample.

Almost two-thirds of the companies using *lifo* adopted it only after 1970 due to the rising price levels. The firms are: a mining company, a drug manufacturer, a drug wholesaler and retailer, an oil company, and a fertilizer manufacturer.

The group is rather conservative when it comes to the reporting of fixed assets. Seventy-seven percent use the historical cost basis while 22% use appraised values, hand in hand with historical cost. Two reasons for shifting to non-historical basis are given, namely: 1) appraisals proved most effective in meeting certain management problems created by the rising price levels, and 2) it realized the desire of the controllers to give more realistic reports. On the other hand, those sticking to historical cost basis explained that "they had not yet thought about the matter." Around 10% are thinking of going into appraisals. They pointed out, however, that appraisals, being quite expensive, will be used if there is a primary need for it, as in the case of mergers, readjustment of prices, etc. In other words, the majority of the sample agreed that appraisals of fixed assets are primarily conducted for managerial uses and secondarily for financial reporting reasons. The results on the practices in the depreciation of fixed assets will follow.

Yet even if accelerated depreciation has been allowed by the BIR, only one company, the fishing corporation, takes advantage of it. As the controller of the company explained it, the use of accelerated depreciation has a greater impact on income tax because they are a 100% registered enterprise. Almost 90% of the sample, including the mining companies, use the straight line method. Only a mere 3.7% use the composite method and a similar number use cost/cubic meter as their basis of depreciation.

As to the possible use of indices for external reporting, only one third of the companies favor its use. None of them have experienced making price-level adjusted statements, even as supplementary information only. The reasons given are: 1) no authoritative body has endorsed it, 2) there is a lack of a suitable price index, and 3) controllers feel it is quite subjective and costly. As one articulate controller puts it, "What is the use? After all, the values you get do not even reflect current values. All you have are pesos of uniform purchasing power."

Thinking along incremental terms, the majority feel that such "reporting niceties" are not justified by their costs. Many think that

disclosures, if and when adequate, can take care of all the misleading possibilities.

As to a recent SEC ruling dated February 1975 regarding the amount of retained earnings which can be at the disposal of stockholders, the sample was divided. For clarity, the rule is as follows: Depreciation to be charged against revenues can be based on appraised values. However, for dividend distribution purposes, the depreciation over and above historical cost, which was charged against incomes, should be added back to the retained earnings, and be made available for dividend distribution, if so desired.

One of the corporations claimed that they in fact requested for such a ruling. Around 29% of the samples favor the ruling, claiming that it is realistic and works for the interest of the stockholder in the final analysis. Forty per cent are indifferent to it. They feel that the ruling does not affect them at all and they are not therefore interested in discussing it. Thirty-one percent are very earnestly against it. They claim that it is unrealistic and may detrimentally affect the cash position of the company. It is like taking away with one hand what the other has given. This same group would like to go even farther — that of allowing depreciation based on appraised values for tax purposes.

Internal Reporting Practices

Internal reporting is especially included since it is not restricted by general accounting principles. Anything goes therefore in so far as reporting to management is concerned. In other words, without the pressures of being within generally accepted principles, which techniques will be used for management?

In valuing inventories, all the companies follow their external reporting practices along with all the methods and practices stated under them. The same is true with depreciation. Those who had their assets appraised depreciate also in appraised values. The straight line method was the most favored.

However, only 65% of the sample use historical cost for internal reporting purposes on fixed assets. The major drug manufacturer had used replacement cost from its inception to the present. Those who had their assets appraised (33% of sample) had the following specific uses for the appraisals:

Pricing	33%
Insurance valuation	26
Expansion	3
Appraisal of performance	13
Loans	13
Sale of property	6
Merger	6
	100%

While indices were not used for external reporting, forty one percent of the sample claimed they made use of price indices for managerial purposes. Among these companies, 73% are manufacturers, 9% comprise commercial banks, and 18% merchandising firms. In the majority of cases, they are used for planning and for control functions such as budgeting, capital budgeting, performance appraisal, determination of stockholder equity and other areas of decision-making. Most of the companies do it on an informal basis; the index-adjusted figures are not a part of their records.

In so far as the regular use of indices to adjust control reports to management are concerned, only 22% of the companies use it. Among the indices available, the most used are the consumer price index and the wholesale price index. Most of the controllers felt, however, that available indices are not specific enough to suit their needs.

Conclusion

This paper did not intend to defend or downgrade the historical cost method. It intended, rather, to pinpoint the source of reporting difficulty that had been causing the misrepresentation of the profitability, liquidity, and solvency of businesses, rendering the financial reports unfaithful to the purpose for which they were produced.

Several conclusions can be drawn from this study. For one, high rate inflation produces high rate depreciation in the purchasing power of money, resulting in the misstatement of financial variables, such as inventories, cost of sales, depreciation charges, and fixed asset values, in the financial reports in relation to the current money value of such variables. There also seems to be a misconceived notion that historical cost basis is behind all these misstatements. However, it was pointed out that no matter which reporting technique is used

— whether cost or current value — significant changes in the measuring unit (money) will require adjustments of the values previously taken up to make them more current and useful. The above cited reporting deficiencies will exist, therefore, for as long as money is used as the common denominator of financial transactions. Cost-benefit comparisons should be considered in the choice of adjustment techniques to be used, especially as there are various alternatives to choose from.

To remedy the impact of inflation on their financial variables, some business firms opted to improve data for decision-making, planning, and control. Financial reports were incidentally improved by these efforts. But the majority of the business firms did nothing, mainly because of the lack of incentives for giving better external reports, the absence of sanctions, and the high cost of revaluing through appraisals.

The popularity of the straight line method vis-a-vis accelerated depreciation seems to indicate that firms go more for convenient methods in depreciation accounting. This is the opposite of accounting for inventories where firms even use the moving average method that entails a lot of clerical work.

Although price indices are not used for external reporting, some companies have found them useful for decision-making, planning, and control.

Recommendations

To make financial reports more useful, the following recommendations are made.

1. Disclosure requirements as specified by professional organizations should be strictly enforced. All institutions concerned, especially the various associations of accountants, should help in the effort. Perhaps sanctions for disclosure violations should be well defined and implemented. Discipline within the ranks should be encouraged.

2. PICPA and other concerned organizations should study the possible use of the commodity index being developed by NEDA in the revaluation of assets. If it is feasible as an alternative to appraisals, a formal endorsement should be made. Specific pro-

cedures should be written and published. This will encourage more firms to improve their external reports.

3. Should inflation worsen, perhaps reports can be made clear and useful through the full disclosure of current values side by side with historical data. As to whether we should stick to appraisals, use the commodity index (specific) and/or general indices, or use other aforementioned techniques as a means of getting the current values will be decided by a cost/benefit study.

4. The Securities and Exchange Commission as well as the members of industry should be more involved in the efforts to solve reporting problems. Perhaps industry can extend financial support to researches.

APPENDIX A

I. Historical-Cost Based:

1. Partial techniques

- a) Lifo
- b) Accelerated depreciation

2. Price-level-adjusted statements

II. Current Value

1. Partial or total applied only on specific items of the statement e.g., fixed asset only or to all assets

- a) Appraisals
- b) Replacement cost
- c) Realization value
- d) Fair market value
- e) Specific price indices

2. Total

- a) Discounted cash flows
- b) Capitalization of earnings

APPENDIX B

Appraisal of the "Alternative"

Disadvantages

Advantages

Historical-Cost-Based Price-level adjusted statements

- | | |
|---|--|
| a) Costly — besides the initial cost of training personnel to do it, readers/users also have to be trained with the uses of the new nomenclature. | a) It is cost-based: It is anchored on a highly acceptable basis. |
| b) Very small no. of adopters inspite of the very specific & definite guidelines promulgated by the AICPA Board of Acctg. Principles and the Chartered Accounts of England and Wales. | b) Since it is cost-based, it is based on objective data. |
| c) Lack of a general price index. The only general price level index used here is the consumer index. Data subject to the shortcomings of the historical system. | c) Removes the instability problem of money as a measuring unit. |
| d) The data produced lack relevance. It does not give the current value of assets and equities so essential in the assessment of opportunities. | d) Value conversions are objective through the use of the general price index. |

- e) The general price level index may not be indicative of specific inflationary experience of a particular firm. A firm needs to know the relative value of the goods and services which it uses or owns.
- e) If the users can read through it, it is decidedly more informative than historical cost statements only. It provides comparability.

2. Current value

- a) At present there is a lack of detailed principles and methods to implement it.
- a) May supplement historical cost.
- b) Lack of objectivity in its measurement. Various prices prevail in different locations and under various conditions.
- b) Useful not only to public but also to management uses.
- c) Depreciation could be difficult to determine due to the length of the life of the assets and the frequent fluctuated current values.
- c) Timely & relevant data are availed of.
- d) Also costly. It will require an extensive educational program for users.
- d) Due to its wide usefulness it has greater social impact than the historical based statement.
- e) Can not fully satisfy the needs of all users just like the historical cost.
- e) May be applied partially as when one appraises his fixed assets or uses replacement values for his fixed assets as realizable values for his incentives.

BIBLIOGRAPHY

Books

Carey, John L. *The Rise of the Accounting Profession to Responsibility and Authority, 1937-1969*. New York: AICPA, 1970.

Articles and Magazines

Heaving, E.A.J. "Fair Value Accounting." 28th Annual Convention of the PICPA, 1974.

Wilson, R.G. "Practical Aspects of Inflation Accounting." London International Conference of the Institute of Internal Auditors. *The Accountant* (July 18, 1974).

Tiemens, Howard. "Legal Aspects of Fair Value Accounting." *Financial Executive* (January, 1973).

Backer, Morton. "Valuation Reporting in the Netherlands: A Real Life Example." *Financial Executive* (January, 1973).

Barrett, M. Edgar. "Proposed Bases for Asset Valuation." *Financial Executive* (1973).

Knortz, Herbert C. "The Challenge of Economic Realism." *Financial Executive* (January, 1973).

_____ "Ten Firms — How They Take Care of Inflation." *Accounting Age* (August 10, 1973).

Farty, Paul E. "Current Values and Index Nos.: The Problem of Objectivity." *Research in Accounting Measurement*, AAA, 1966.

Da Costa, Boucinhas, "Bases of Accounting Other Than Historical Cost." 10th International Congress of Accountants, Sydney, 1972.

Hendriksen, E. "Purchasing Power and Replacement Cost." *The Accounting Review* (July, 1963).

McIntyre, E. "Current Cost Financial Statement and Common Stock Investment Decision." *The Accounting Review* (July, 1973).

Pamphlets

The Institute of Chartered Accountants of England & Wales, July, 1973. Exposure Draft #8 "Proposed Statement of Standard Accounting Practice: Accounting for Changes in the Purchasing Power of Money."

The Institute of Chartered Accountants of England & Wales "Accounting for Changes in the Purchasing Power of Money" Provisional Statement of Standard Accounting Practice #7, May, 1974.

"Accounting for Inflation." A Working Guide to the Accounting Procedures Part I & II.

Accounting Research Bulletin #43, AICPA, 1953

Accounting Research Study #6, "Reporting the Financial Effects of Price Level Changes." AICPA, 1963.

PICPA "Revaluation of Fixed Assets," Special Bulletin #2-7, November, 1971.