How the Economic Inflation Affects the Financial Statement

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Abstract

Economic problems occupy the first place among the other problems after people have gone to the battle of money and the search for a living and common terms showing the reality of the situation such as securing the future and other terms. The problem of inflation is one of the biggest problems experienced by all developing and developed countries at the present time, the fact that there is a difference in the causes and rates of inflation between one country and another and time period to another within the same state. However, the reality is that all countries suffer from this problem. This problem raises the concern of economists because of its effects on all aspects of life economically, socially, and morally as well, and this problem is gaining special attention in the developing countries as the most countries suffering from the inflation waves.

Keywords: Economic Inflation; Financial Statement

Research Problem

The problem of the world economy is one of the most serious problems that threaten the economy of countries and economists have not come to define a clear concept of inflation and its impact on the financial data, scientists have been hit in the problem of inflation to find a solution to such an economic problem.

Research Objectives

Research objectives are multifold:

1- To define a clear concept of the problem of inflation and its effect on the financial statements.
2- To detect the obvious and specific causes of inflation.
3- To check Economic inflation and its effect on the financial statements
Significance of Research

The significance of this research comes from the fact that economics is not free of inflation and its effects, and the other thing that prompted me to write the research is the necessity of studying the proposed solutions to the problem of inflation and its effects in order to correct it and corrects its course.

Literature Review

The concept of Inflation concept:

Inflation is either the increase in the overall level of prices or the decline in purchasing power of the monetary unit and the general price level is the weighted average price of all goods and services in a given society (Amiri, 2010). Inflation is defined as the continuous increase in the overall level of prices, so inflation is not an inflationary increase in prices for one reason or another, such as higher prices due to seasonal or occasional factors, and the increase in prices does not mean to be for all goods. The prices of some commodities may rise while others remain stable. In addition, the price increases are not equal to all commodities. The increases may be different (Al-Fatalawi, Al-Zubaidi, 2009). According to the common definition is known as the continuous rise in the general level of prices and explains that the problem of inflation appears if the state suffered from following:

A- constant rise in prices: The seriousness of the problem of inflation comes from the rise in prices is continuing over a period of time, the temporary rise in prices because of any emergency or casual circumstances may not cause a problem for the state and therefore cannot be considered a kind of inflation. Inflation means high prices are going on.

B - Rising general price level: means that the overall average price within the country is raising, so the rise in prices of some goods and lower prices of other goods may not lead to a rise in the general level of prices and therefore not considered inflation. But inflation indicates a rise in the overall average price of various commodities. (Nassif, 2007).

Inflation:

1- Original, explicit or correct inflation: It occurs when the increase in total demand does not correspond to the increase in production, which is reflected in the form of an increase in prices.

2- Creeping inflation: This type of inflation is characterized by a slow rise in prices even in cases where there is a moderate increase in demand, that is, there are no sharp increases in price levels. (Al-Fatalawi, Al-Zubaidi, 2009).

3- Excessive inflation: Unbridled inflation indicates a very high rise in the general level of prices within a short period of time. This type of inflation usually occurs in the wake of wars or severe crises where the value of the monetary unit in the state and lose confidence and abandon them and to resort to barter transactions in exchange.

4- Inflation pent-up: In this type does not show inflation in the form of price rises as the state intervenes in prices as the state intervenes in certain ways to prevent the rise in prices from appearing by fixing prices by special means for commodities or by giving subsidies to producers to compensate them for their profits And prevent rising prices from appearing. Despite the absence of high prices in this type of inflation, but it is clear in several other aspects of the most important:

A) The disappearance of goods with fixed prices from the official markets and the emergence of the black market.
B) Queues of consumers in front of the official distribution outlets that display the goods at the fixed price.

C) Low weight of goods and low quality of goods, sold at the same fixed price.

This is considered the most dangerous species because it leads to neglect the treatment of the real cause of the occurrence, which leads to exacerbate the stirring of negative within the economy. (Nassif, 2007).

**Causes of inflation:**

There are two main theories that explain inflation - inflation by attracting demand and inflation by paying maintenance.

**Demand-driven inflation:**

Under this theory, increasing aggregate demand leads to higher price levels and inflation occurs when total demand increases faster than total supply. Since the aggregate supply is constrained by factors of production such as capital accumulation rates and technological progress, the increase in aggregate demand has caused an increase in the overall price level. There are several reasons behind the increase in aggregate demand, including the increase in the overall supply of money, the high rate of government spending successive tax cuts

**Inflation to pay maintenance:**

According to this theory occurs as a result of the pressures of trade unions to increase the wages of cash faster than the increase that occurs in normal conditions and then called inflation caused by high wages. Also arises from the monopolistic practices of managers who raise prices even in the absence of increased demand or rising costs and called inflation resulting from the increase in profits. The success of trade unions in imposing wage increases at a rate higher than the increase determined by market forces, paving the way for increasing the average wage in the national economy, the result will be an increase in the overall level of prices and with a decrease in the overall supply employment and output diets significantly reduced (Fatlawi, Zubaidi 2009).

**The effects of inflation:**

The most important effects of inflation can be explained below:

1- The effect of inflation on the redistribution of incomes: The inflation as we have shown is the continuous rise in the general level of prices in the sense of low purchasing power of individuals whose cash income has not changed or changed at rates lower than the rate of increase in price.

2- The impact of inflation on consumption and savings: Part of the national income for consumption and savings, and in times of inflation imbalance occurs between the relationship between consumption and savings.

A rise in the general price level means lower purchasing power or real income. People tend to reduce their savings to maintain their previous consumption. Money also loses its function as a storehouse of value, as individuals tend to dispose of their savings and turn them into physical assets. As a result, there is no incentive to save and consumption increases.

3- The impact of inflation on the balance of payments: The rise in domestic prices in times of inflation makes them higher than in other countries, which loses them competitiveness and reduces exports, and
this loses the country an important resource of state revenues or in return makes foreign prices lower than the prices of local goods. Increase imports and drain a measure of state resources.

4- The impact of inflation on investment: The continuous rise in prices to the prevalence of uncertainty in the adoption of investment decisions. As investors find it difficult to estimate the costs of production in the future and estimate future prices so they will resort to projects that have a short recovery period and refrain from investing in large productive projects or they invest in the financial markets and speculation in the sense of investment in non-productive activity, economy.

5- The social effects of inflation: The effects of inflation not only on the economic side, but the effects of social undesirable, it generates a state of public dissatisfaction to the imbalance of the relationship between wages and prices. It is also a source of social and political anxiety and disorder because of the disparity that ensues in the distribution of wealth generated an increase in disputes between workers and employers and the spread of corruption and bribery and low performance and efficiency of workers (Al-Fatalawi, Zubaidi, 2009).

**Inflation Policies:**

The therapeutic policies of the problem of inflation differ depending on the cause of the problem; the treatment of inflation means to treat the cause of the emergence of this problem. Inflation treatment policies can be divided into:

1- Monetary policies: These policies focus on the need to adjust the rates of increase in supply in proportion to the rate of growth in real output. Where many of the views agree that inflation is a monetary phenomenon, excessive cash supply is the real reason for the emergence of inflation, so that the increase in money supply is pushing wages to rise.

2- Financial policies: These policies emphasize that controlling inflation requires reducing aggregate demand components by controlling consumption levels through increasing the rates of indirect taxes on consumer goods, including luxury goods, which encourages consumption reduction and savings. In areas desirable through the use of a distinctive tax policy in addition to controlling and rationalizing government spending through the abandonment of all objects of unnecessary spending

3- Wage policies: These policies are based on the treatment of inflation Villa on the need to link the increase in wages with increased productivity to reduce the high costs of production and low overall supply. (Amiri, 2010).

**Accounting for inflation**

**Inflation accounting:**

It is known that accounting is still dependent on the assumption of the stability of the value of the unit of cash. It is natural that the accounting system, which depends on the principle of cost, works very well in periods of price stability and works reasonably if inflation is moderate but if inflation is severe, such an accounting system loses its meaning. The big challenge facing accountants today is to look for new accounting methods to make the financial statements consistent with contemporary economic realities and their inflationary environment. The summary of the above is that the modern world is characterized by inflation and if the accounting measurement of profits continues based on the assumption that the price levels do not change, the financial statements will be misleading and do not reflect the reality and will result in the emergence of social and economic consequences inappropriate:

First: the inability of companies to pay their obligations, which threatens the economic crisis
Second, as long as the allocation of economic resources depends largely on the financial statements, the poor distribution of economic resources will be the inevitable result of ignoring inflation in the preparation of the financial statements (Amiri, 2006).

The discussion on inflation accounting starts with knowing how net nominal value and profits should be measured. In fact, the three possible alternatives for the measurement of nominal net worth are: net present value, alternative value, historical value adjusted by the general price index including its current purchasing power.

It is clear that inflation accounting is combined with two distinct concepts. The first is related to supporting the purchasing power of financial capital by replacing historical values with today's values or values of substitution or appearance while the second is directed to the protection of economic capital subject to different relative prices.

In this respect, it should be recognized that the participating methodologies of inflation accounting also appear to be experimental in order to encode the practical financial measures. This relates to the first part of the profit in the capital (increasing unrealized value and profit or loss in the monetary elements as well as the comparison between the accounting cost and the current cost).

**Accounting for economic inflation:**

The literature of historical facts and events indicate that inflation develops over time and in one direction and is irreversible. This development began since the beginning of the nineteenth century and was followed by the first and second world wars and their economic crises. Therefore, inflation is no longer a random event that is disappearing due to the reasons that led to its emergence, but it is the phenomenon that is associated with most of the economies of the world. Inflation as defined by economists as the continuous rise in the general level of prices due to the increase in the amount of currency exchange traded and the low availability of goods and services, Real in the value of the currency. Companies in most countries still prepare their financial statements on the basis of historical cost without taking into account the high rates of economic inflation and the devaluation of their currency. The reliance on this principle in the light of economic inflation and monetary decline makes accounting elements recorded in both the budget and the historical cost calculation, And does not reflect the real value because the evaluation was done by the cash lost part of its purchasing power because of economic inflation, as to the elements of the budget become misleading and do not reflect the economic reality during the period of economic inflation as the inclusion Which affects the non-monetary elements of fixed assets and inventories and indirectly affects property rights. The monetary components of debtors, money and loans lose their buying power over time (Amiri, 2010).

**Accounting entries on inflation:**

There are two inputs to modify the accounting process so as to take into account the state of inflation and address both inputs as follows:

Under this approach, the costs in the financial statements are adjusted to a number of current cash units reflecting uniform values in their purchasing power. Accordingly, all amounts are expressed in the form of equal cash units in their purchasing power, which will the effect of changes in the general level of prices Therefore, some people, call this approach accounting on the basis of changes in the general level of prices.

2- Accounting on the basis of current cost: This approach differs from the previous entry in that the assets and expenses are presented in the financial statements at the current cost necessary to replace these resources. The current replacement cost of a particular asset may increase or decrease at a rate different from the general price level.
Accordingly, accounting is based on the current cost of the effect of changes in special prices rather than the effect of changes in the overall level of prices.

To illustrate these entries, we assume the following example:

In the food company, 500 kilos of rice were bought in 2003 at 10000 dinars when the price index was 100000 and in 2004 the rice was sold at 108.000 dinars when the price index was 1100000 while the replacement cost of 500 kilos was 1040000 dinars. In order to answer this question, we will present three entries that can be measured in terms of profit. These are the revised historical cost (in accordance with current accounting principles), historical cost adjusted for changes in the overall level of prices Ongoing (Ameri, 2010).

<table>
<thead>
<tr>
<th>Statement</th>
<th>Unrealized historical cost</th>
<th>Historical cost adjusted for changes in the overall level of prices</th>
<th>Current cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1080000</td>
<td>1080000</td>
<td>1080000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>1000000</td>
<td>1100000</td>
<td>1040000</td>
</tr>
<tr>
<td></td>
<td>80000</td>
<td>(20000)</td>
<td>40000</td>
</tr>
</tbody>
</table>

Source: Author self-calculation

Expected trend of inflation accounting.

The methods of adjusting the lists in accordance with changes in the general price level have been known for many years. However, their use in practice has not been widely used, although it is recommended that they be used by the IASB and the IASB. An important factor supporting the use of accounting on the basis of current cost is that the financial statements prepared using a homogeneous unit of cash is based on the general level of prices and not on the prices of certain goods and services. A company may have a stock of certain commodities and the prices of this stock may vary completely change in the overall level of prices

There is an important feature of accounting using a homogeneous monetary unit, which is highly objective. All adjustments use the same general measurement number, meaning that the calendar will not be based on personal estimates or opinions. Accounting at current cost is faced with a fundamental problem Is to provide criteria to measure the cost of replacing different types of assets may be appropriate to use the indices of private prices as they are more objective and a satisfactory way to obtain data on the cost of replacement and yet these figures will be standard records specialized to measure certain types of tuberculosis Instead of measuring the number one overall level of prices. (Walter, Robert, 2012).

Practical Example.

The portion contains upon concept of financial statements and the impact of economic inflation on the financial statements.

The concept of financial statements.

Business Results List (Income Statement)
In order for the economic units to identify the outcome of their activity at the end of the financial year, they prepare the operating, trading, profit and loss accounts, which can be grouped into a single list called the business results or income statement.

The business buys goods, resells them and makes profits through the difference between the price of their sale and their cost. (Waleed Zakaria Siam, 1994, p. 313)

The final form of the net income is as follows:

Net income for the period ended December 31,

<table>
<thead>
<tr>
<th>Statement</th>
<th>Partial</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales</td>
<td>Xxx</td>
<td></td>
</tr>
<tr>
<td>Returns the proceeds of sales and their permissibility</td>
<td>(xxx)</td>
<td>Xxx</td>
</tr>
<tr>
<td>= Net sales</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>_Sales cost:</td>
<td>Xxx</td>
<td></td>
</tr>
<tr>
<td>First - time goods</td>
<td>)xxx)</td>
<td></td>
</tr>
<tr>
<td>+ Net purchases</td>
<td>Xxx</td>
<td></td>
</tr>
<tr>
<td>Purchase returns and their permissibility</td>
<td>Xxx</td>
<td></td>
</tr>
<tr>
<td>+ Purchase expenses</td>
<td>(xxx)</td>
<td>(XXX)</td>
</tr>
<tr>
<td>= Total cost of goods available for sale</td>
<td>Xxx</td>
<td></td>
</tr>
<tr>
<td>_ Other commodity duration</td>
<td>(xxx)</td>
<td></td>
</tr>
<tr>
<td>= Cost of sales or cost of goods sold</td>
<td>Xxx</td>
<td></td>
</tr>
<tr>
<td>Total profit or total loss</td>
<td>Xxx</td>
<td></td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling and distribution expenses</td>
<td></td>
<td>Xxxxx</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Example: The following are the balances of some accounts of Aso Company as of 31/12/2004 and amounts in thousands dinars:

Cash sales 800, futures sales 400, cash and cash equivalents 10, first goods for 65 cash purchases 30% cash sales, futures purchases 40% of futures sales, purchase returns and receipts 5, transport expenses 4, customs duties on purchases 10% Sales expenses, sales expenses 5, rent 2, salaries 7, consumption of project vehicles 8, and other goods were estimated at a cost of 20 thousand, according to market price 22 dinars

Required: Prepare the net income list for the company for the year 2004?

The solution:

List of net income for a business happiness company

For the period ended 31 December 2004

And amounts in thousands of dinars

<table>
<thead>
<tr>
<th>Statement</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Partial</td>
</tr>
<tr>
<td>Total sales 600 + 400))</td>
<td>1000</td>
</tr>
<tr>
<td>- Sales returns and their permissibility</td>
<td></td>
</tr>
<tr>
<td>= Net sales</td>
<td>(10)</td>
</tr>
<tr>
<td>Cost of sales:</td>
<td></td>
</tr>
<tr>
<td>First - time goods</td>
<td></td>
</tr>
<tr>
<td>Add to net purchases</td>
<td>65</td>
</tr>
<tr>
<td>Total Purchases</td>
<td>340</td>
</tr>
<tr>
<td>- Purchase returns and their permissibility</td>
<td>(5)</td>
</tr>
<tr>
<td>= Net purchases</td>
<td>38</td>
</tr>
<tr>
<td>+ Purchase expenses</td>
<td>438</td>
</tr>
<tr>
<td>Total cost of goods available for sale</td>
<td>(20)</td>
</tr>
</tbody>
</table>

= Net profit (loss)
Statement of financial position (balance sheet). The balance sheet is the primary means of providing a clear and fair picture of the financial situation of the project at a time that is often the end of the financial year. Therefore, the financial statements are classified into appropriate groups that facilitate the identification of the financial situation of the project and assist in the proper analysis and discussion of the judgment. On the status of the project and the balance sheet is classified in two aspects representing the right of the assets and the left liabilities and equity. Assets are classified into: fixed assets, current assets: intangible assets and fictitious assets or so-called other civil balances, Term liabilities and current liabilities (short term) as shown in the same liabilities owners' rights or so-called owners' rights.

The statement of financial position (balance sheet) can be classified according to three principles:

A- The difficulty of converting it into cash liquidity is as follows: starting with the assets side with fixed intangible assets such as goodwill and patents, then tangible fixed assets such as land, buildings, machinery, then assets, such as commodities,

B- Commercial, financial and finally other civil assets. On the liabilities side, property rights are initially shown, followed by long-term liabilities, short-term liabilities and other credit balances.

The easy way to convert them into liquid cash is to start with assets such as cash in the fund, bank, and so on, followed by tangible fixed assets, intangible fixed assets and finally other civil assets. On the liabilities and equity side, short term liabilities and liabilities Long term property rights then finally show other credit balances.
C- In the form of a report: The modern trend in accounting tends to present the statement of financial position in the form of a report and there are judgments in this area, where some see the start of current assets, fixed assets and current liabilities, long-term liabilities and finally,

In commercial projects, assets are arranged in order to be easily converted into cash. Current assets are started with tangible fixed assets, intangible fixed assets and finally other assets. The liabilities should be arranged according to the ease of fulfilling the obligations. Therefore, the current liabilities (short-term liabilities), fixed liabilities (long-term liabilities), followed by other credit balances and finally property rights are started. It should be noted that the ownership rights in the public shareholding companies for public subscription, so start with the authorized capital. (Waleed Zakaria Siam, 2012)

The effect of inflation in the financial statements

First: Problems of economic inflation in the final lists:

Inflation causes many problems in the elements listed in the final lists (calculation of the result and budget), which makes these lists do not reflect honestly what they are.

1- Economic inflation and its impact on the budget elements:

Traditional accounting depends on the historical cost principle in assessing the balance sheet components. The continued recording of financial statements according to historical accounting during the period of rising prices and devaluation makes the budget misleading and does not reflect its economic reality. Such as fixed assets and inventory also directly affects property rights.

Monetary items such as debtors, money, loans and the like do not fluctuate or change to their present value despite being affected by purchasing power (Amiri, 2006).

In general, the dramatic increase in price levels and without any doubt necessitates a modification of the traditional budget procedures in order to remove the inefficient allocation of capital.

Consequently, net present value should include expected inflation so that all uncertainties of future cash flows can be absorbed and contained.

Ignoring this fact leads to a diminishing or growing calendar and is dependent on the sensitivity of inflows and outflows to inflation (Juma, 2000).

2- Economic Contribution and its impact on the elements of the income statement (income statement)

The economic inflation leads to higher production costs borne by the company on the prices of sales, and are certainly rising prices of service and commodity inputs reflected on the prices of selling products, so decisions taken in respect of reducing the selling prices may not be fully compatible with the rise in prices of inputs of goods and services.

In the context of the calculation of the result (income statement), the change in inventory is accounted for by the difference between the last period inventory and the first-time inventory expressed in monetary units with different values.

The deviations resulting from inventory calculations can correct a molecule by forming an allocation for higher prices. However, it is difficult to assess the economic impact of these deviations. Therefore, the method of finally coming out first can include an appropriate solution to increase the accounting profit in the period of economic inflation.
In general, the accounting profit for the financial period does not reflect the real profit. The tax calculated on the accounting profit, when the latter is partially or totally fictitious, constitutes a burden on the capital and is deducted from it. In addition, Productivity of the company. It is clear that economic inflation is misleading the final lists prepared on the basis of historical cost, especially in view of the continuing high rates of economic inflation. Which calls for taking some measures and practical ways to address economic inflation.

Based on the problems caused by inflation in the financial statement (balance sheet) and the calculation of the result, it is necessary to present and analyze the methods and methods of accounting common to use in this area in theory and practice (Juma, 2000).

Second: The accounting methods used to address economic inflation:

The activation of the role of accounting as an instrument of measurement of economic and social management requires first identify the problems reflected by inflation on the accounting items recorded in the financial statements, because most countries where companies are still preparing their data on the basis of historical cost without taking into account the high rates of economic inflation and low values of currencies Cash for it.

Based on the problems presented, it is necessary to review the necessary practical measures that help accounting to adapt to economic inflation and open the future prospects for its development in order not to give a distorted picture of the financial statements and then lose the purpose and objectives that seek to achieve them.

The methods of inflation accounting fall into two main categories:

The first is based on historical values and changes in the general purchasing power of the monetary unit (the general purchasing power method). Its objective is to maintain the purchasing power of the invested capital. It is based on the differential development of the prices of goods and services (the method of replacement cost), and its objective is to maintain economic or productive capital (Amiri, 2010).

1-General purchasing power method (adjusted historical cost):

The general purchasing power method is based on the fact that the value of the original is made up of its current historical value. This method is often referred to as the modified historical cost.

Based on this method, the final lists, in the first and last period of the financial period, are adjusted using an assumed indicator of monetary decline, which represents the evolution of the general level of prices since the date of acquisition of the assets.

That all elements in the financial statements expressed in identical monetary units, helps to make accurate comparisons of the same company for several years, or between a certain company and other companies operating in the economic sector.

In addition, the general purchasing power method shows the general purchasing power gains resulting from the expansion during the financial period in the components of the monetary liabilities which are generally in the loans. It also shows the general purchasing power losses resulting from the retention of cash assets which are generally in debtors and cash.

Historical cost accounting is not valid as a method used to assess budget components during the period of economic inflation, because this accounting cannot make the elements in the budget a real expression when applied in economic companies complaining of economic inflation. Installs budget items at the cost of purchasing or purchasing them.
In the period of economic inflation there may be significant differences between the historical values of purchase or purchase values and the current values of the budget components. This discrepancy must be adjusted or adjusted in order to reflect the values of the budget elements of their economic reality. Inflation also causes a rise in the prices of goods and services, the rise in the prices of these inputs is reflected in the increase in the prices of products, and other factors such as salaries, benefits, profits or financial losses are also affected by economic inflation.

As a result of this general effect of inflation at the expense of the result is misleading the accounting profit generated during the financial period, which is reflected in the distribution of profit margins and on self-financing of the company (Amiri, 2006).

2- Current Cost Method:

This approach is based on replacing the concept of incremental cost or the cost of restructuring the assets, the concept of market value and the concept of the present value of future revenues to replace the historical cost method adjusted by the index Monetary decline or general price index.

The concept of incremental cost is one of the most common concepts used in this approach, because it takes into account the exclusion of the hypothesis and severity of the effects of economic inflation on the evaluation of various elements of assets.

The replacement cost of any asset is the current cost to be spent in order to obtain the same fixed asset that has the same current productive capacity retained by the company. The alternative cost method is taken as a criterion for valuation based on the principle that there is no material gain or a real profit unless the revenue of the sale allows the acquisition of a quantity of goods that is higher than the one sold. The replacement cost is determined by several methods, the most important of which is the use of the respective indices or the reliance on the services of the consultants.

The method of substitutionary cost seeks to serve the regulator, who puts his primary concern in securing the resources to obtain sufficient production capacity in the future while the general purchasing power method aims to serve the shareholder who is concerned with the issue of maintaining the strength of his investment. However, the objective of the replacement cost can only be achieved if the selling price covers at any given time the current cost of renewing the fixed assets and inventory while maintaining the company's activity (Ameri, 2010, p. 439)

Main Findings

1. As long as the allocation of economic resources depends heavily on the financial statements, the poor allocation of economic resources will be the inevitable result of ignoring inflation in the preparation of the financial statements.

2. Economic inflation leads to higher production costs and the effect of this is reflected in raising the prices of selling products.

3. Historical cost accounting is not valid as a method used to assess budget components during the period of economic inflation.

4. Some countries during the period of economic inflation to launch free prices is a measure aimed at allowing companies to create or increase margins within the scope of competition.

5. The general purchasing power method is based on the fact that the value of the original consists of its current historical value and is often referred to as the modified historical cost.
6. The financial statements in the first and last period of the financial period are adjusted using an assumed indicator of cash decline which represents the evolution of the general level of prices since the date of acquisition of the assets.

Conclusion

In conclusion, it can be said that there are two methods of accounting commonly used in economic inflation. The first method is the general purchasing power. This method is based on the adjustment of the accounting elements under the general price index. This method aims at preserving the capital invested by the shareholders. The second method is the replacement cost, which is based on the last price known in the process of assessing the accounting elements. This method aims to preserve the economic capital or the elements of the operational energy. The application of one of these methods has become a necessity and a very urgent need in the period of economic inflation, but the question of choosing the appropriate method is a problem, especially that the application models vary from one case to another or differ from each other, such as the model of the application of replacement costs. Which is bound by the objective of the amendment of the final lists? If the objective of the company is to connect to a real measurement of the results of its work, it is preferable to use the method of public purchasing power because it is widely used in the adjustment of inflationary effects, which leads the company to achieve the objective of the core management objectives are The general purchasing power method is suitable for companies with diversified and variable activities according to market imposition. If the objective of the company is to evaluate its assets and liabilities, it is preferable to use the substitution cost method because it helps to reduce the effects of price fluctuations even under Absence of the phenomenon of economic inflation. In addition, the method of replacement cost is suitable for companies that are oriented towards the exercise of a particular activity within the framework of a mandatory plan integrated and comprehensive.

Recommendations

1. Common accounting methods and methods should be presented and analyzed to solve the problems caused by inflation in the balance sheet and calculate the result.

2. The evolution of economic inflation or monetary decline should be taken into account in a way that does not affect the growth and expansion strategies of companies.

3. It is necessary to review the necessary practical measures which help accounting to adapt to economic inflation and open the future prospects for its development in order not to give a distorted picture of the financial statements.

4. It is preferred to use the general purchasing power method because it is widely used in the adjustment of inflationary effects, which leads the company to achieve the fundamental objective of the objectives of management is to measure the outcome and control.

5. The general purchasing power method is suitable for companies with diversified and variable activities according to market imposition. The alternative cost method is suitable for companies that are oriented towards the practice of a particular activity within the framework of a mandatory and comprehensive plan.
References


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