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Review of Accounting Practices Before and During Inflation

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Abstract: Inflation accounting is a term that describes a set of accounting systems designed to correct the problems caused by the use of historical cost in terms of inflation. Inflationary accounting is used in countries with severe inflation. One of the primary goals of an information accounting system is timely and reliable for users of that information. The traditional basis of accounting for the use of historical data is the use of this information. Because these values are both reliable and proof when in many countries inflation caused a disparity in the structure of the economy. Accounting thinkers and economics scholars have been thinking about a solution. Accountants have been working on solving these problems by providing and providing solutions in the form of accounting standards.

Keywords: accounting, inflation, management, economics

Introduction:

Inflation has been one of the major problems of the Iranian economy, especially in the past few decades. Economists believe that the costs that inflation inflicts on society can be much more severe than the costs of slowing economic growth.

The destructive effects of inflation can be the redistribution of income to the benefit of the owners of property and the loss of wages and salaries, increasing

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insecurity and instability in macroeconomics, and as a result of shortening the time horizon of decision making, and the reduction of long-term investment and other factors, hence its control through its targeting as one of the goals of macroeconomic policy has always been a matter for economists.

But in targeting inflation, it is very important to identify the inflation indicator that regulates inflation control policies. This indicator should only contain long-term causes of inflation, not short-term factors and short-term shocks, such as seasonal fluctuations, supply shocks, etc. This indicator can be called the base inflation, which politicians are guided by monetary policy based on the inflation index.

Inflation, in the sense of continuous growth of the general level of prices, is one of the most important economic problems in many countries, especially in developing countries. Despite the extensive literature on inflation and the presentation of various economic considerations on the reasons for its occurrence, new issues in the field of literature on this phenomenon are still being introduced and expanded. Among these topics is the identification and measurement of basic inflation. Inflation is considered as an indicator that non-monetary factors such as seasonal fluctuations, supply shocks, etc. are eliminated and only represent permanent (long-term) inflation, rather than the use of a general inflation rate. Inflation can be controlled by using basic inflation without damaging production.

Problem Statement:

Inflation is a steady increase in the general level of prices of goods and services, which ultimately leads to a reduction in purchasing power and economic disruption. Due to the destructive effects of inflation, including the redistribution of income to the benefit of the owners of property and the loss of wages and salaries, increasing uncertainty and instability in macroeconomics and. (Moghighli and Qavam Mas'udi, 2005).

Inflation, in the sense of continuous growth of the general level of prices, is one of the most important economic problems in many countries, especially in developing countries. Countries that seek inflation targeting and curbing it instead of using a general inflation rate have identified a basic inflation rate as an indicator that non-monetary factors such as seasonal fluctuations, supply shocks, etc. have been eliminated, and only a sign of permanent inflation (long-term) are used, because they have found that the use of general inflation to target inflation may not be feasible and appropriate. Inflation is composed of two permanent and temporary

components. Its permanent and sustained part does not have a long-term impact on production, and it tends to align with expectations, which is why it is predictable, but it is less likely to be a temporary or temporary inflationary component.

In the world today, we see profound changes in the economies of the countries. The nature of production, trade, employment and work in the coming decade will be very different from what is today. In fact, the new economy represents the funds or sectors of an economy that is producing or using new innovations or new knowledge in order to achieve long-term economic growth.

On the other hand, many government financial activities such as welfare programs, government debts, etc. Of course, private sector contracts, such as lease contracts, collective wage bargaining, etc., are usually adjusted to an indicator of inflation.

In addition to the issues raised, it is important to have a proper indicator of the cost of living in assessing the performance of a particular economy. In addition, for the realization of key economic variables such as national productivity, productivity and economic growth is an indicator of prices. As the index is more accurate, these key variables will be more accurate and better information will be provided to policy makers and the private sector. This will result in more effective decisions. As an example, more accurate indexation of government welfare plans will lead to a reduction in public debt.

Background Research:

Few researches have been conducted on inflation and inflation accounting, and they only focus on the calculation of basic inflation, and in none of them, it has been investigated that basic inflation in Iran has long-term memory.

Kahwah and Wahi (1995) measured the inflation base on the application of long-term constraints on the VAR system (including production and inflation) (for the UK).

The results of this study indicate that the non-basic inflationary shock causes irregularities in inflation and is not part of the process; in other words, these impacts have a temporary effect on the measured inflation. On the other hand, the base inflation swing has more influence on measured inflation has it?

Also, the effect of the base momentum on production is limited and is rapidly lost, but the occurrence of non-basic impulse will have a significant effect on production.

Bailey and Bolerslo (1998) used a combination of these models and used a model (ARFIMA-GARCH) to explain inflation dynamics for ten countries. They found strong evidence of long-term memory with a return-to-average behavior.

Vienna (1999) studied various methods of measuring basic inflation. Based on this study, various methods of measuring basic inflation can be summarized based on different criteria. On the other hand, in this study, a set of criteria that can be used to measure basic inflation, As an example of one of the characteristics, there is a theoretical foundation that, among different methods, only the VAR method () has this property. It should be noted, however, that the most common methods for measuring the basic inflation, the method of removing food and energy, the average time, and the use of econometric techniques VAR.

Benjamin Franklin believes that there is an inevitable reality in life: death and taxes; but according to Kayo, it should be added to the third one, and it is nothing but a tour, meaning that monetary value in the world is constantly decreasing.

In Kohler's book \ "General Price Level accounting \", a method of refining the value of financial statements based on public purchasing power is defined. This definition only includes adjusting information on historical financial figures based on a general price index and the main purpose of accounting there is no change in prices, which is the statement of financial position and the results of financial operations at current prices

A former US citizen, in a television talk about US economic policies, showed people a one-dollar bill, saying: "This dollar, which earned \$ 1 in 1960, today is just 36 cents worth of purchasing power. That's why the reason for inflation is anyway. "A fact that has long focused on the minds of economists and accountants.

The Need for Research

One of the primary goals of an information-accounting system is to timely and reasonably inform users of that information. The traditional basis of accounting for the use of historical data is the use of this information. Because these values are both valid and proof-proof. When in developed countries inflation has become disproportionate in the structure of the economy. Accounting thinkers and economics scholars have been thinking about a solution. With the provision and provision of solutions in the form of accounting standards, accountants have been struggling to overcome these problems in an inflationary context due to the decrease in purchasing power and the increase in the volume of liquidity of prices,

and this causes the current value of constantly changing goods and services (generally rising) Are. These constant fluctuations in the purchasing power of money and so-called price level changes are the main focus of inflation accounting issues.

Research Questions:

The Main Question of:

Does inflationary accounting provide more accurate items than historical cost accounting?

Sub-Questions:

- 1- Does using inflationary accounting make financial statements more accurate during inflation?
- 2- Does inflationary accounting show the company's profits?
- 3- Does inflationary accounting indicate significant changes in assets during inflation?
- 4- Do the BIS provide the level of changes in the financial statements items compared to the cost accounting?

Goals and Hypotheses:

The purpose of this paper is to study the accounting treatment of inflation and to describe inflation accounting and its relevance to the elements of the importance of financial accounting and the comparison between accounting in the past before and after inflation and then or during (inflationary accounting). And the comparison between historical cost accounting and inflation accounting for precise items in the time of inflation.

Hypotheses:

Main Hypothesis:

Inflationary accounting versus historical cost accounting provides more precise items.

Sub-Hypothesis:

The use of inflationary accounting makes financial statements more accurate during inflation.

Inflationary accounting can reflect company profits during inflation.

Inflation accounting identifies significant changes in assets during inflation.

Inflation accounting provides the level of changes in the items of financial statements and profit compared to the cost accounting.

Different methods of measuring basic inflation.

		Aspect of time	
	-	Sectional	Time series
raw information	Individual price changes	Extract the energy and food effect	Dynamic Factors Index
	Basic inflation		Moving Average Filtered series Expansive series Paved
	Price information + Other factors	-	-

Criteria for selecting the base inflation rate

	Take-out food and energy	Moving Average	Average sorted	EVERTOR INDEX	Dynamic factors indicators	Var. Criteria
Calculable in real time	yes	may	yes	yes	yes	yes
Look forward	no	yes	no	no	no	yes
Understandable to the public	yes	yes	may	no	no	no
Theoretical	no	no	no	no	no	yes

Acute Inflammation Conditions

- The general public is willing to maintain their wealth in foreign currency (more stable, more stable).
- Expression of prices to foreign currency.
- Dealings will be made at a price higher than the price of the day.
- Interest rates, salaries and wages are related to inflation indicators
- The last three-year inflation rate is close to 100% or higher.

Changes in prices can be categorized in one of the following categories:

- 1- Change the general price level.
- 2- Specific price changes.
- 3- Change in relative prices.

Indicators of Inflation Measurements:

The purpose of building a price index is to summarize the price of various goods and services in the economy in one number over time. In a hypothetical economy in which there is only one commodity, making such an indicator is very simple. In fact, the price of this commodity will be the same as the price index. However, making such an indicator in the real world with more than 50,000 different types of goods and services would not be easy. In the construction of a price index, there should be three information components available. The first component provides information on the price of various goods and services.

The second component is the weight given to each of these different goods and services. The simple way is to give weight to the same group of goods, but it does not seem to be so logical.

In fact, data from the household budget is used to extract these weights. Hence, more weight is given to commodity groups that contribute more to household expenses.

The third part also uses a formula that combines the two previous components together and represents them as a number that is the price index they say.

Price Indicators:

In general, price indices are used to combine different components and reach a specific number. Types of price indices are:

1- Laspires Index

In making this price index, information about the base year basket is used. This index is defined as follows:

$$L_t = \frac{\sum_{i=1}^m P_i^t q_i^0}{\sum_{i=1}^m P_i^0 q_i^0}$$

In the above relationship, assuming the existence of m different categories of goods and services, iq_0 is the basket of goods and services consumed in the base year, which is here. Zero is set to.

2- Bush index:

In constructing this index, the data for the basket of goods for which we will index this year will be used this year. This index is obtained from the following equation:

$$P_t = \frac{\sum_{i=1}^m p_i^t q_i^t}{\sum_{i=1}^m p_i^0 q_i^t}$$

In this case, P_t is the price index for the hypothetical year t ,

3- Fisher's index:

This index is in fact a combination of the Laspires and Patches. More precisely, the Fisher's index is the geometric mean of the above-mentioned indices as follows:

$$F_t = \sqrt{P_t \times L_t}$$

The number obtained for the high index will be between the Laspires and the Variant indices. In particular, there will be the following relationship between the indicators explained.

$$P_t \leq F_t \leq L_t$$

The existence of the equal sign in the above relation indicates that in the base year, all three indicators will be equal to each other.

Historical Cost Accounting Disadvantages

- Failure to reflect the actual situation
- No relevant information
- Failure to compare financial statements in different periods.

Types of Measures of Inflation

To measure inflation, various price indices are used, each of which has a specific application in various economic issues.

1- Consumer Price Index (CPI)

This index measures the cost of purchasing a fixed basket of goods and services over time. To make it, the Laspires price index is also used. Therefore, in order to construct the CPI, we need three elements of information: the values of the basket of goods in the base year (the weight given to different categories of goods and services), the price of these goods and services in the base year and year in question (the year that the index is supposed to be To be made).

The prices collected to build this index are retail prices, which are the prices paid by consumers. For this reason, this index is in fact the best estimate of the cost of living changes, which is sometimes also referred to as an indicator of the cost of living. At first, the goods and services are divided into several major groups. Each of the groups will be subdivided into sections.

Finally, each of these subsections will be divided into specific goods and services, with a total of 260 components. The task of collecting prices starts with the same components. Information about the weights given to various product and service groups is obtained from household budget surveys. In this study, using specific sampling methods from households, their cost model is extracted, and ultimately, the weight they give to different goods and services.

In the case of prices, information is obtained through sampling methods from shopping centers that people buy from, such as chain stores, local markets, supermarkets, etc.

Of course, the use of the Laspires index to create this price index leads to specific issues. This index is the most widely used index in measuring inflation.

2- PPI producer price index

To this indicator, the wholesale price index (WPI) is also called. This indicator measures the modest changes in the basket price of goods and services sampled by craftsmen and domestic producers sold in the wholesale market over time.

Of course, the family has its own three members: the price index for finished goods or finished goods, the price index for intermediate goods and the price index for raw materials. Meanwhile, this index is first calculated for various commodity groups and then expressed as one unit number. The weights used in calculating this index are extracted from studies on the production structure of the economy.

Unlike the CPI index, the PPI index measures changes in prices from the perspective of the consumer, measured by the consumer's perspective. This index

is a key variable in commercial and economic decisions as well as a vision of the future picture of inflation at retail level.

3- Indicative Indicator of GDP:

This index is calculated directly from GDP data. The calculation method is as if we were using the GAME INDEX. This indicator is defined as the ratio of gross domestic product to real GDP calculated at the base year's prices.

The most significant differences between the indicator and the consumer price index is that this index, unlike the CPI, does not include imported goods, and the price change, imported goods will not affect this index. While this index may contain goods that have no effect on consumer welfare. In fact, all deficiencies related to the calculation of gross domestic product will apply to this indicator.

4- Personal Expenditure Expenditure Indicator (PCEPI):

This indicator, like the CPI index, measures the price changes from the consumer's point of view. Although this index has similarities with the CPI index, it also has different dimensions in several aspects. These two indicators are different in terms of the scope of goods, the formula used to calculate them, the weights given to different commodity groups and the prices collected.

Measuring and Accounting for Inflation:

Indeed, the inflation rate measures changes in these price indices. In other words, assuming that CPI is used to calculate the inflation rate, we will have: π_t in the above relation, the inflation rate is between t and $t-1$. You can calculate the inflation rate using any of the price indices that were introduced on previous pages.

Measuring Inflation in Iran

In Iran, the central bank is responsible for calculating the inflation rate and, in international statistics, is cited as the inflation rate charged by this entity. In Iran, as in many other countries, CPI is used mainly to calculate inflation from consumer price index.

The index of prices for consumer goods and services (consumer price index) is one of a variety of price indices that is a measure of price changes as a fixed and definite amount of consumer goods and services of urban households and a means

for measuring the general level of prices in the retail market and one The best tools for measuring inflation and purchasing power in the country.

Although this indicator is an estimate of the cost of living, it can be used to accurately reflect changes in household living costs.

Because in the cost-of-living index, total household expenses, including taxes and insurance, are included in the calculation, while costs such as taxes that are not dependent on retail prices are not included in the price index of consumer goods and services.

Also, when calculating the cost of living index when the amount of consumption and the type of goods and services are changed, these changes should be considered in the calculations, while the price index of goods and a brief and general course of how to calculate the inflation rate by the central bank will be addressed. > Consumer Services (Inflation Index (Price Changes in a Fixed Basket whose Items and Coefficients Determine Their Importance in the Base Year).

Reasons for Inflation Account Advocates:

- 1- Historical prices reported in financial statements if the purchasing power of the dollar (or any currency) would not be constant are a cumulative of heterogeneous and non-homogeneous items. The general level-based accounting system seeks to mitigate this problem.
- 2- In order to evaluate management, the general level of price-based accounting provides relevant information. Hence, the profit and loss from the general level of prices reflects the management's response to inflation.
- 3- The general level-based accounting of prices reflects the effect of inflation on profits and can provide a more realistic return on investment (more accurate calculation of return on investment).
- 4- The ability to compare financial statements between companies increases.

Reasons for Opponents of Inflation Accounting:

- 1- Most empirical studies indicate that the issue of "relevance" of information is either public or not, or is not considered appropriate.
- 2- The change in the general level of prices relates only to a change in the general level of prices and not to the level of specific prices. Hence, profits and losses from the maintenance of non-monetary assets are not recognized.

- 3- In different companies, inflation has various effects. Companies that have heavily invested are affected by inflation, rather than companies that rely on short-term assets, and companies that have heavy loans benefit from inflation. As a result, general-purpose-based accounting may distort ordinary profits.
- 4- The cost of implementing a public-based pricing system can increase its benefits.

Results and Suggestions:

In Iran, during the period under study in the years 1368 to 1375, we face high inflation rates. After that, the trend is decreasing over the course of several years, but has gained momentum in recent years. The subject of inflation accounting since 1980 has been the past, and measures have been taken by meters that can not be optimized.

The main reason why this situation has been developed is that the SNA1993 is now a more precise and comprehensive framework for under-swap auditing. Perhaps the most significant development of SNA1993 in the SNA1993 could be the development of changes in asset accounting. This accounting alternative has been evaluated and it is possible to make a detailed accounting for changes in asset value between the opening and closing dates of the balance sheet.

This is due to changes in quantities and prices. Changes in asset value due to changes in price and value. In the case of disagreement between inflation and accounting, one can say that the apparent return on financial assets is assessed, such as deposits and loans. Considering the importance of changes in asset accounting.

Other changes in asset accounting are actually changes in asset values between the opening and closing of the balance sheet. They are attributed to the studies recorded in financial accounting and capital. This account will be divided into two separate accounts, which are changes in the volume of assets that are recorded in value changes, and the other is an evaluation account that records value changes due to changes in asset prices. Changes in asset value are due to price changes.

This is a self-assessing entity. Accounting is an evaluation of the recording of these returns. These studies have used a variety of accounting methods to examine the relationship between pre-inflationary inflation and inflation over time, which highlights a large number of these positive studies between inflation and

accounting the results of this study are mainly: inflation has variable variance and therefore, inflation forecasts cannot be used merely from the conditional average equation. It should also be used to estimate the variance equation and apply it in predictions.

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