ACCOUNTING SYSTEM IN TERMS OF INFLATION

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Abstract:
Currently, accounting is going through an evaluation process, talking about an "accounting of the future", and not a historical cost accounting. This means that assessing the value of the property and maintaining this value until the exit of the accounts are replaced with estimated value of estimated future benefits that may be generated by the company through the ownership of certain categories of goods. In a hyperinflationary economy, the inflation adjusted financial statements do not contravene the principles based on historical cost accounting, but rather complement them. If you were to continue presentation of financial performance and financial position at historical cost, provided that the money loses its value, would not be able to compare financial statements from year to year.

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Reflected in the financial capital of the enterprise is viewed in two concepts: either financially or physically. Financial concept is adressed by most units and refers to money invested in equity or net assets, determined as the difference between total assets and liabilities or foreign capital. The concept refers to physical capacity, expressed in number of units of finished product made per day.

Many authors present two methods of adjusting for inflation of a firm's financial statements, namely: a method based on conversion and the method based on current costs. For these two categories also follows, of course, and combined methods. These methods seek to preserve the financial capital and physical capital maintenance.

Selected capital concept is based on the information needs of users of financial stements. If they are interested in maintaining nominal capital, ie the real value of an action, then use the financial concept, and if users are interested in operating capacity of the capital, it will use the physical concept.

One of the adverse effects of inflation in terms of using a historical cost accounting has been and is de-capitalization of its economic agents operating in an inflationary environment. The extent of the erosion of capital is even greater when inflation is high and its presence is maintained over time. Between the concept of capital and income it creates a series of correlations and interdependencies influence the time factor with significant influence in terms of inflation.

The concept of maintaining capital levels take into account how a company defines the capital that wants to maintain. It provides the link between the concepts of capital and profits, as it provides a reference point without which profits can be measured. Only active entries in excess of amounts needed to maintain capital may be considered income and therefore invested capital gain product.

The main difference between the two concepts of capital maintenance is the treatment effects of price changes of assets and liabilities of the enterprise. Generaly, a capital company has maintained that the end has a share equal to that of the early period. Any amount in excess of that required to maintain capital at the beginning of the period is considered as profit.

Profit is increasing purchasing power determined during the period. Therefore, only the part of asset price growth in excess of the general price level is considered as profit. The rest are treated as adjustments to maintain capital and should be recorded as part of equity (stocks). It assumes that the purchasing power of currency and higher prices are not equivalent concepts.

Viewed from another perspective, capital is the capacity of the company. Under this concept, profit is obtained only when the operational capacity (physical) production or resources (funds) needed to achieve this capability, the end of the period are higher than those recorded at the beginning of it, after the removal of any distributions or contributions to and from shareholders during the period considered. Although not require any special valuation basis, and maintaining physical capital to start the adoption cost as the basis for evaluation.

Capital maintenance concept allows a comprehensive approach to the outcome of a society. Typically, the result is reflected in the profit and loss as the difference between revenue and expenditure for the period, reflecting the company's performance in historical costs. In the context of economic development, normalizers were determined to supplement the information derived from historical cost as the basis for preparing financial statements using other valuation bases to reflect the items' fair values generated by the company's existence. A combination of historical cost and other valuation bases creates the need to recognize in the financial statements of unrealized gains or losses.

1. Conversion-based method

Feature of indexing method based on conversion is based on the best index that measures the purchasing power of currency, namely, the general index of price increases. In Romania, the general index reflecting price increases is published by the National Statistics and is called, the consumer price index.

Most countries have historical cost denominated financial statements, but without taking account of changes in the general price level of property assets, unless the government decisions which require revaluation of land, fixed assets and financial investments.

Thus, what we used to call accounting restatement as a conversion method based on the indexed accounts. This is because it is based on historical costs to be indexed. In doing so, monetary assets and liabilities are not indexed because they are already expressed in current purchasing power. Monetary assets and Cash are the claim and monetary liabilities to current liabilities.

IAS 29 applies to entities that operate in a hyperinflationary economy. Their financial statements, measured at historical cost or current, must be reported to the unit current at the balance sheet. Net monetary gain or loss should be included in the results and presented separately.

Restatement of financial statements to IAS 29 requires the application of specific procedures for updating and professional reasing. To obtain an absolute accuracy of these procedures and judgments must be applied consistently. This process would require the restatement of financial statements including cash flow statement, the purchasing power of the balance sheet.

Reprocessing procedures are as follows:

- identify the general price index;
- separation of monetary and non-cash items;
- restatement of monetary items;
- restatement of financial performance (profit and loss);
- calculating gain or loss from monetary position;
- preparation of cash flow statement for the effects of inflation;
- restatement of comparative amounts.

The formula used to restate the principle is non-cash items:

$$\text{Restated at the balance sheet value} = \text{Value at the balance sheet at historical cost} \times \text{Conversion Factor}$$

$$\text{The conversion factor for inflation or index update} = \frac{\text{The general index of prices 31.12.N}}{\text{The general index of prices occurred last month when the input}}$$

Balance sheet items which are assessed at current values should be indexed against the current unit on the financial statements. Cash and cash equivalents are cash items will not be adjusted since they are expressed in current units at the balance sheet. Current liabilities and loans are indexed in relation to existing contractual terms. Balance sheet items valued at net realizable value or market value are not restated because they are expressed at amounts current at the balance sheet date. Land and fixed assets, financial investments, inventories, intangible assets are restated by adjusting the purchase or production values.

Therefore not restate monetary items and non-monetary items are restarted by applying the general price index, except those already reviewed the balance sheet date. Following the restatement of financial statements resulting gain or loss on net monetary position, results to be included in net profit or loss and disclosed in the notes to financial statements.

There are items of property which is not possible to enter the accounting data. They will be evaluated by experts real estate appraisers and movable external. If some assets are valued above, will proceed to re-index value at that time to be considering entry value.

2. Method based on current costs

Current cost-based method involves ensuring the maintenance of operating capacity of the unit depending on market prices. This starts at historical cost as the basis for assessment and determine the actual cost of each element side. The actual cost can take several forms, namely: net present value, home value, current entry price, the price of current output.

1. Net present value takes into account future cash flows and cash equivalents asset will generate future indexed at a discount rate.

2. Home value is called the nominal value that have made financial and economic operations.

3. Current entry price is the amount of money necessary to purchase a good present a similar capacity with the property assessed. These values were assigned and two variants, namely: the cost of restoration and replacement cost.

Cost recovery is the amount of money necessary to purchase a good market opportunity of a lifetime similar to the same, the same physical and moral fatigue. Replacement cost is the amount of money necessary to purchase an asset with a higher capacity of the assessed, corrected impairment exists.

4. Current exit price is the expected value of the asset sale under that company's business continuity.

Restated financial statements with the changing purchasing power at the balance sheet provides information comparable from one period to another and from one entity to another. However the current cost financial statements are useful to foreign investors, in that they are comparable with those of foreign entities that operate in that field. The management of the establishment is interested in such a presentation, meaning that facilitates investment decisions.

3. Combined Methods

Combined methods involving the application based on co-conversion methods and methods based on evaluation. They also take account of actual gains due to inflation and monetary benefits, not shown based on evaluation methods.

These methods are difficult to understand for all users, meaning that involve numerous specialized calculations. This leads us to conclude that the combinated method increases costs because for their timely completion, it takes a greater numeber of people.

Conclusions:

Result for the year is the size of firm performance by comparing income and expenditure period. He has a gross and net size, the difference between the two being related income tax.

When an economy ceases to be hyperinflationary, the company discontinues the preparation and presentation of financial statements in accordance with IAS 29. Therefore, treating the values expressed in terms of unit current at the end of the previous reporting period as a basis for future values of financial statements.

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