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IQBAL, MOHAMMAD ZAFAR

**COMPARISON OF THE ALTERNATIVES PROPOSED IN SELECTED
COUNTRIES TO COPE WITH THE IMPACT OF CHANGING PRICES ON
PUBLISHED FINANCIAL STATEMENTS**

The University of Nebraska - Lincoln

PH.D.

1979

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COMPARISON OF THE ALTERNATIVES PROPOSED
IN SELECTED COUNTRIES TO COPE WITH THE IMPACT
OF CHANGING PRICES ON PUBLISHED FINANCIAL STATEMENTS

by

Mohammad Zafar Iqbal

A DISSERTATION

Presented to the Faculty of
The Graduate College in the University of Nebraska
In Partial Fulfillment of Requirements
For the Degree of Doctor of Philosophy

Business Interdepartmental Area

Under the Supervision of Professor Robert H. Raymond

Lincoln, Nebraska

September, 1979

TITLE

COMPARISON OF THE ALTERNATIVES PROPOSED
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BY

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CHAPTER I

INTRODUCTION

The Problem and Its Significance

In the face of high levels of inflation and specific price changes worldwide, many argue that traditional transaction based (historical cost) accounting and reporting practices in most countries fail to provide relevant information. Of all the financial reporting issues which are currently being discussed and researched, none appears to draw interest and arouse emotions as intensely as various proposals regarding accounting for changing prices.¹

National accountancy bodies in many countries have published discussion papers, research studies, exposure drafts, and proposed standards to cope with the impact of changing prices on financial reports. Because of the seriousness of the problem caused by changing prices one might have expected a resolution by now. However, a number of difficult problems impede progress in dealing with this issue. Notwithstanding such widely publicized activity as that in The Netherlands, South America,

¹ International Center for Research in Accounting, International Financial Reporting Standards: Problems and Prospects (University of Lancaster, England, 1977), p. 48.

Great Britain and the American Institute of Certified Public Accountants' Audit Guide on Personal Financial Statements, until the present time the only changing prices standards which have actually been applied on a universal scale to a specific set of firms are the Securities and Exchange Commission's ASR 190 and some indexing schemes in South America.

Many reasons have been cited why progress has been slow in finding acceptable solutions. Some of these reasons include:²

1. Apprehension of managements regarding the adverse effect of adjustments on some critical figures, e.g., net income, and return on investment.

2. Aversion to new and perhaps less precise data.

3. Disagreements relating to underlying theoretical concepts of various proposals, as well as practical considerations.

4. Disagreements regarding the role of accountants in fostering changes in economic, social, or political goals. For example: are concerns regarding capital formation and taxation within the proper realm of accounting standard-setting?

²For detailed discussion of these reasons see, Charles W. Gill, and S. Thomas Moser, "Inflation Accounting at the Crossroads", The Journal of Accountancy (January 1979), pp. 70-71; Alister K. Mason, The Development of International Financial Reporting Standards (University of Lancaster, England, 1978), pp. 190-193.

5. Government influence and other political issues revolving around the impact of changes which may reduce tax base for revenue collection.

6. Labor unions' mistrust of non-historical data. It should also be noted that independent accountants have been, in general, reluctant to issue reports on financial information which is not as verifiable as historical cost.

Although implementation of standards on current value types of accounting appear to be complex and time-consuming, some progress nonetheless has been made in many parts of the world. In various countries specific proposals are being researched, experimented with, and advanced. The proposals already published or currently under consideration include:

- Great Britain
1. Provisional Statement of Standard Accounting Practice 7: "Accounting for Changes in the Purchasing Power of Money", issued May 1974.
 2. Sandilands Report: "Inflation Accounting - Report of the Inflation Accounting Committee", issued September 1975.
 3. Exposure Draft 18: "Current Cost Accounting", the related guidance manual, brief guide, and background papers. Published for implementation of the Sandilands Report in November 1976.

4. Exposure Draft 24: "Current Cost Accounting" and guidance notes, issued April 1979.

New Zealand

1. Exposure Draft 10: "Accounting for Changes in Purchasing Power of Money", issued March 1975.
2. Exposure Draft 14: "Accounting in Terms of Current Costs and Values", issued August 1976.
3. The Richardson Report: "Report of the Committee of Inquiry into Inflation Accounting", issued December 1976.
4. "Current Cost Accounting (CCA) Guidelines", issued December 1978.

Australia

1. Mathews Report: "Report of the Committee of Inquiry into Inflation and Taxation," issued May 1975.
2. Provisional Standard: "Current Cost Accounting," and the related working guide, issued October 1976 and amended August 1978.
3. Exposure Draft on monetary items, issued July 1978.

- United States
1. Accounting Principles Board Statement 3: "Financial Statements Restated for General Price-Level Changes," issued June 1969.
 2. Securities and Exchange Commission's Accounting Series Release (ASR) 190: "Amendments to Regulation S-X Requiring Disclosure of Certain Replacement Cost Data," issued March 1976.
 3. Financial Accounting Standards Board Exposure Drafts: "Financial Reporting in Units of General Purchasing Power," and "Constant Dollar Accounting," issued December 1974, December 1978 and March 1979 respectively.
- South Africa
- Circular: "Accounting for Inflation and Other Changes in Price Levels," issued October 1975.

Relatively little has been written about the confusion that may result if significantly different standards are developed in different countries, or about the problems confronting a multinational company which has to implement reporting requirements of several countries.³ The

³ As noted by Mason, op. cit., pp. 182 and 184.

comparative studies should facilitate recognition, among those concerned, of diversity of practices and pronouncements in various national proposals, and thus hopefully aid in harmonization. Efforts should begin before methods adopted in different countries become firmly established. Perhaps the International Accounting Standards Committee should assume the leadership role in this endeavor.

Objectives and Scope of The Study

The overall primary objectives of this dissertation are to identify and explain the similarities and differences in selected proposals for reflecting the effect of changing prices in financial reports that have been advanced by professional and governmental bodies in the United States, Great Britain, and New Zealand. These commonalities and contrasts will be generally identified by descriptive analysis of the provisions of the proposals, followed by empirical work wherein the financial statements of a large corporation will be converted to each of the proposals studied for two years.

Scholarly and non-emotional identification and explanation of the commonalities and contrasts are the only objectives of this dissertation. This, however, is a desirable first step in seeking solutions to many vexing problems associated with accounting for changing prices that are