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Impact of inflation accounting on organizational decisions in indi -an retail stores- A review study

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Abstract
The inflation accounting technique allows a business to show or have a sensible picture of their gains due to present cost coordinates with present revenues. Thus, the effects of inflation accounting on organizational decis ions of Indian retail stores were evaluated in this study. The study used a qualitative research method.The fi ndings of this study highlighted positive relationships between the variables that were used. Thus, the study r ecommends that retail stores always consider inflation changes and apply inflation accounting techniques to make adjustments to produce more accurate results in their financial statements. Heated discussions now su rround the basis of financial performance measurement via historical cost accounting. this influences their deci sion making and financial performance positively.
Keywords inflation, historical cost, accounting, financial statements, Exploratory Factor Analysis, Bombay stock exchange, India.

1. Introduction

Inflation accounting is better known as 'price level accounting'. It is a special accounting technique used to adjust the financial statements. The company's financial statements are adjusted when there is a material amo unt of price inflation, causing historical Information on the financial statements to be irrelevant or less useful. A lot of retail stores are dependent on financial statements that are based on historical information. Informati on becomes less useful to the business and the users of financial statements because inflation has not been c onsidered. Using historical costs on financial statements is unsuitable as figures become distorted and less reli able. Also, amounts are overstated on financial statements. The overstatement causes a false comparison, and a reflection of the business's weak point becomes difficult to pin out. It cannot be denied that a historical c ost basis is good when one needs to measure assets. However, problems are encountered when prices shift o ver time between the dates when assets were bought and the current date. In this case, using historical costs will not be relevant if the main reason to take a measurement is to show the most recent economic gain re flected by the financial performance.
Reliability is essential in financial statements so that the information presented is useful. Reliable information comes in handy when business decisions have to be made. Moreover, if proper business decisions are made, there will be an improvement in financial performance. With that being said, financial statements would be m ore practical to the retail stores. An economic entity prefers income calculated correctly, considering the effect s of inflation to ascertain the real purchasing power of such profit. When financial statements are measured and presented on a historical cost basis, they ignore the effects of changes in price levels of assets and tran sactions if inflation accounting is used as inflation is a continuous problem that influences the accounting sys tem. Retail stores must use inflation accounting as it reflects the true value of the business. Nearly the same is that it reviews any suspicious amounts, which may be performed on a historical cost basis that may sho w big amounts of tax and profits. The business will always be at risk if correct methods are not applied be cause retailers deem inflation accounting as too complex to understand. Therefore, retailers must use inflation

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accounting to prevent financial statements from being reported incorrectly, especially when inflation and interes t rates shift drastically.

This study highlights the value and encourages retail stores to use inflation accounting. This paper aims to fi ll the misinformation gap that the retail stores have and direct them to improve their financial wellbeing. Ac cordingly, this paper acts as a tool to analyze and further elucidate the subject matter and add to the existin g knowledge and literature. Since inflation is a chronic case, it should be accounted for by companies. Thus, the companies can evaluate and adjust financial statements more realistically to overcome the changes made by inflation developments. It is worthy to note that accounting methods estimates and interpretations of financ ial statements are recurrent accounting issues. Annual reports must be accurate to make correct organizational decisions, improve business quality and performance. This study highlights the appropriate measures that shoul d be taken during periods of high inflation and prepares companies to use methods that should be applied in the case of high inflation developments in the future.

2. Objective of Inflation Accounting

1. To enables more realistic and comparable statistical analysis of the financial statements of other co mpanies Profit and loss in inflation accounting reflect the true condition of a company
2. To provides meaningful financial ratios with current value adjustments

2.1 The Main Advantage of Inflation Accounting are:

1. Inflation accounting reflects the current balance sheet of a company and not the historical one
2. It is helpful during general inflation or hyperinflation, as during such cases, it delivers a lot of be nefits to its customers

2.2 The Limiting Disadvantages of Inflation Accounting Are:

1. Inflation accounting is a complicated process, making it more difficult to reinstate the figures of the com pany and present these to the investors.
2. It creates moral hazard issues for businesses that deceive customers with their finances.

3. Inflation Accounting Methods

There are two main methods used in inflation accounting—
Current Purchasing Power (CPP) and Current Cost Accounting (CCA).

3.1 Current Purchasing Power (CPP)

Under the CPP method, monetaryTitems and nonmonetary items are separated. The accounting adjustment for monetary items is subject to the recording of a net gain or loss. Nonmonetary items (those that do not car ry a fixed value) are updated into figures with an inflation conversion factor equivalent to the consumer pri ce index (CPI) at the end of the period divided by CPI at the date of transaction.

3.2 Current Cost Accounting (CCA)

The CCA approach values assets at their fair market value (FMV) rather than historicalcost, the price incurr ed during the purchase of the fixed asset. Under the CCA method, both monetary and nonmonetary items a re restated to current values.

4. Literature Review

Empirical review on the consideration of inflation in organizational decisions for retail stores Aphr (2018) stat es that his research was conducted to understand about how people would react to inflation and expectations, based on the amount of knowledge they have. Also, individuals failed to understand the relationship between inflation and prices and were unaware of past and future inflation measures. This could mean that the respon dents have a limited understanding of the whole inflation concept and therefore fail to know food prices andi nflation. Moreover, managing inflation expectations is very important because it is the core aspect of monetar y policy. According to pillier et al. (2015), secretive cultures prevent users from seeing the upward movemen ts of inflation in financial statements because it is easy to conceal earnings and asset values. Businesses enga ge in these concealments to avoid the responsibility of accounting to external investors. Piller et al. (2016) m ention that the valuation impact of International Financial Reporting Standards (IFRS) on capital markets is n ow a foundational international matter in question. With over 120 countries that are developed or underdevelo ped, they should be adopting IFRS. Financial statements' effectiveness for economic decisions depends entirely on the accounting principles used in preparing data and its validity.

Fais and Jhon (2015) pointed out that reducing the time it takes to collect trade receivables and increasing t he number of days it takes to settle commercial obligations are linked to increased profitability. Additionally,p rofitability is characterized by increased return on assets combined with a decrease in working capital.

Muhammad et al. (2016) explained that inflation accounting is among the most important components of profi tability, and it can be used by businesses to enhance their profitability. Further research showed that working capital components are associated with profitability, which is a clear indication that if there is a boost in the loop of future profitability, it would negatively influence effectiveness. Additionally, restricting the cash conver sion cycle or the loop of future profitability to the most straightforward probable point, developing a sound

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working capital policy or capital investment framework, and concentrating intensely on each component can h elp directors generate a particular amount for the company.

Vintla and Nnu (2017) said that liabilities, overdrafts, and cash are utilized to meet the changeable and fixed costs of the manufacturing development and procure reserve for resale. Profitability or sustainability is clearlyd efined as the connection involving expenses and revenue and the company's existing achievements, promising expected growth, and WCM. Highlighting the relevance of profitability, Cakici et al. (2017) concluded that pr ofitability is among the four segments used by different firms to analyze their economic declarations and perf ormance. Efficiency, solvency, and market hopes are the other three. These critical impressions are used by managers, creditors, and investors to assess the company's success and future potential if activities are carried out properly.

5. Conclusion

Inflation accounting reflects the actual value of a business but has several drawbacks, including non-acceptance by authorities or complicated systems and processes. A financial statement's purpose is to provide a business with an accurate and fair value. Accordingly, an income statement should show the company's act ual and precise profit or loss for a specific period, while a balance sheet should indicate the company's truef inancial position. Due to regular fluctuations in currency and money, a method such as inflation accounting is necessary to reflect accurate and fair value in financial statements. So, the business will not experience signif icant deviations due to this method.

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Conflict of Interest

In this manuscript the authors declare that there is no conflict of interest.

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