

THE FINANCIAL SITUATION WITHIN HYPERINFLATIONARY ECONOMIES

Cuc Lavinia Denisia

Universitatea "Aurel Vlaicu", Facultatea de Științe Economice Arad, Str.Eroul Necunoscut, Nr. 10, laviniacuc@yahoo.com, 0745312142

Pantea Mioara Florina

Universitatea "Aurel Vlaicu", Facultatea de Științe Economice Bd. Gen. Dragalina, miofp75@yahoo.com, 0730585908

The present paper contains not only a general view on the inflation phenomenon, but also a presentation of its influence on the currency and non-currency elements present in the financial references. Reassessment is proposed as being the necessary operation to partly correct the incidence of inflation over these elements.

Key-words: reassessment, purchasing power, fair value, value, reality

JEL Classification: M41: Accounting

The inflation has been defined as being the increase process of the general level of consumer prices, seen as a durable split in the normal rapport between the currency and the transactions volume. Despite the cause that triggered the inflation, its existence, perpetuation and aggravation lead to imbalances within the economy of a country and from the point of view of the currency depreciation, it has multiple consequences: it has a negative influence upon the economic agents, their savings decrease, they have fewer resources, the production decreases, the creditors are disadvantaged, the long-term productive investments lose their support while the depreciation of the national currency increases.

The causes of inflation are connected to the currency aspect and they can be determined only by linking them with the history of money and of its various aspects. Certain economists claim that the inflation is connected especially to the currency offer, its supplementation being determined by the decisions taken by the specialized economic agents with the view of increasing their assets- their credit money (M. Friedman); however, others believe that the main cause is the production insufficiency which leads either to inflation through offer or to the employees' salary increase which is not backed up by a productivity increase- a phenomenon which according to some specialists in the domain, represents the real inflation.

The inflation manifests itself under the following aspects: the growing tendency to keep the savings under the form of non-currency assets or in a stable currency, the appreciation of values and prices by relating them to a stable currency, more expensive credits, etc.

If we take into consideration the intensity criterion, then the inflation can be divided in several categories: moderate, open, rapid, hyperinflation, stagflation and last but not least slumflation within which coexist rapid inflation and economic recession, which ultimately leads to the economic decline. Hyperinflation is a very dangerous type of inflation in which prices increase in short periods of time, creating general imbalances within the national economy.

The financial situations have to offer information about the financial position, performances and the changes in the financial position of a company. However, under the circumstances of a hyperinflationary economy, it is necessary to make a reference, in which the exploitation results and the financial position are reassessed, because the purchasing power is decreasing and therefore the conveyance in the national currency of the transactions or other events which took place in different moments of the same accountancy period, will deform the rapport leading to inconclusive results.

Furthermore, in order to offer the users qualitative information with the help of the financial situations, it is necessary to classify the structural elements of the situations presented under

currency and non-currency form, by taking into consideration the fact that during inflation periods, in spite of their intensity, there is the hypothesis that the creditors might lose while those who borrow money might win due to the fact that the payment of debts is done using an inflation devalued currency and thus the creditors no longer recover the entire value even though the circumstances are similar. This classification is based on the idea that the expression of value under the form of a currency unit without keeping any connection with the material form, assures protection against price changes, because the currency unit remains constant while its purchasing power changes.

The currency elements are those assets or debts whose value is fixed to a certain amount of currency units and which are not affected by the changes occurring in the currency purchasing power (for example: cash and bank deposits, debentures, commercial effects, short-term investments, commercial and fiscal debts, a part of the in advanced expenses).

The non-currency elements are those assets or debts whose value increases or decreases according to the market value and which will be used in the future production activities or for the sale of goods and services (assets, stocks, delayed taxes, owners' equity, in advance payments which were given for certain transactions, general guarantee bonds for the non-currency assets). The advances are of a non-currency type only if they are adherent to the selling/purchasing transactions, if not they belong to the class of currency elements. The delayed taxes are non-currency elements because they do not determine a cash flow.

The inclusion of the in advanced expenses within this category raises controversies. Some economists (for e.g. L. Johnson), include them in the class of the non-currency assets because they are connected to a transaction that involves the transfer of goods towards an enterprise, which has already taken place or it is unfolding or will take place in the future; others (take the American organization named AICPA, for example) argue that this advance expenses have to be considered claim elements belonging to the present period created for a future period, when they materialize under the form of in advanced payments of the debts that will appear because of the products or services. Johnson proposes a classification in currency and non-currency elements, based on their connection with real goods and services and not on the expression based on constant units or on those affected by the price changes. According to him, the currency assets are available resources which are not engaged in the production of goods and services while the real non-currency assets are already engaged in the production of goods and services and whose assessment is directly affected by the price changes. Therefore, the currency debts represent bonds which are expressed through constant measuring units, reflecting a present value; on the other hand, the non-currency debts are about to be reimbursed through the exit from the group of non-currency assets, whose values is directly affected by the prices level.

This classification can prove its usefulness in the assessment of these elements under the circumstances of the financial situations determined by the hyperinflationary economies within which the rapport is influenced by the belonging to the currency and non-currency class, thus changing the concept of assessment through constant currency units into the concept of drawing up financial situations through a constant purchasing power.

The currency and non-currency units behave differently under inflation circumstances and therefore the rapports must take into consideration the reality of the transactions that have been done by the enterprise; but they must not contain the gains or losses exclusively owed to the variations of the purchasing power, this being achieved by the readjustment of the historic cost. It is necessary for these situations to make the distinction between the expression through constant purchasing units and the expression through constant purchasing power. According to this theory, the last variant is the correct one. It is also necessary to add a supplementary information if the result has been influenced by the owning of currency elements since they are subjected to numerous changes within hyperinflationary economies.

The international agent that settles the rapport within the hyperinflationary economies is the IAS 29 (redefined in 1994) which is used in “primary financial situations, including the consolidated financial situations belonging to any enterprise which makes the rapport in the currency of a hyperinflationary economy”. Therefore, the financial situations will be adjusted to inflation, because otherwise they would contain values which are not comparable from one accounting period to another and which would not respect the information homogeneity and continuity and thus leading to an incorrect reflection of the financial position.

We shall follow the structure of the financial situations on their constituent parts, by taking into account their grouping into currency and non-currency elements, the way in which they are influenced by the inflationary economy and the way in which assessment is done under these circumstances.

The non-currency patrimonial assets are: the intangible assets (the set-up expenses, development expenses, concessions, patents, commercial brands and other assimilated rights and values, the commercial fund and other intangible assets), the tangible assets (terrains, buildings, technical installations, means of transport, animals, plantations, furniture, office devices, protection equipment for the human and material values, and other corporation assets), the present tangible and intangible assets, a part of the financial assets, participation titles, financial assets under the form of participation interests, equivalent equities, asset equities, stocks, in advance registered expenses, the debts and the treasury elements expressed in foreign currency.

The first four enumerated categories are assessed at the registration price of the date they entered the patrimony. If they are not reassessed, there is the possibility that they might be underestimated in the future, by comparing them to the market values, excepting those which deteriorate morally with the passage of time (for example, the office devices). If by any chance they are sold, a difference might occur because the price obtained is superior; this being the situation for the selling of terrains as well. The profit is not real because it represents a price increase based on powerful currency depreciation. Its reflection in the profit and losses account leads to the taxation of the transaction and thus the enterprise will have to pay a tax on inflation, the state being the only winner. The inflation impact upon the value of capital assets is greater if the assets are expected to resist for a long period of time- this being owed to their regaining through amortization.

The stocks represent materials, works and services destined to be consumed at their first usage and to be sold when they have the position of merchandise or products, resulted from processing as well as from the unfolding production.

Under inflation circumstances, because of the prices increase, the enterprise wins out of stocks but does not usually register this profit in the account. There are several ways for stock assessing, such as: WAC, FIFO, LIFO and NIFO.

The WAC method (weighted average cost) is efficient as long as the economy is a stable one, but when the prices increase, the method is used to determine the consumption average value. On the other hand the FIFO method is used to determine the minimal consumption value. Nevertheless, under inflation conditions the LIFO method is preferred because it assesses the consumption at its maximum value, while the accounting result is presented at a minimal value. Thus the desynchronization effect is corrected, because the consumption value approaches the value of the stock replacement costs. The NIFO is a method, through which the outs assessment is done at the anticipated or the present cost. The last method deserved to be mentioned is the one of the pre-established price, calculated on the basis of medium prices and corrected with the help of the price variation index. (This method refers only to the consumed stocks).

Considering the fact that at a balance sheet level, the inflation impact is reflected through an increase in value of stocks, which will significantly influence the final result, their assessment requires utmost attention. Therefore, the patrimony stocks and assets in general, as they appear in the financial situations do not reflect reality when they are put into practice. This happens for

various reasons, such as: their accountancy value is underestimated, because it is registered on the basis of the historic costs, the value plus, resulted from the comparison of the utility value with the entrance value, is not accounted; in the balance sheet the elements, appeared in different moments, generate inhomogeneity; most of times the reassessments are have a partial character.

The patrimony liabilities are: the capital and the stocks formed of social capital, capital connected bonuses, reserves resulted from reassessment, the present and the reported reserves and results, incomes registered in advance, debts expressed through a foreign currency. Under inflation circumstances, the capital is measured with the help of an instable currency, while the elements that compose it totalize values that have a different purchasing value, and thus not assuring the homogeneity appreciation.

The in advance incomes are also affected by inflation, because at the registration moment the power of the currency unit is greater than when it is registered in the income category of the profit and losses account. The further in time this moments are, the more powerful their effect is. Therefore, the liable patrimony elements are underestimated at the date of the accounting period ending, thus forming an inhomogeneous and irrelevant adding.

The currency elements are the following: a part of the owners' equity representing the investment subventions, a part of the financial assets representing the asset claims and the deposit slips which will be done for financial assets, claims, liquidities, or equivalent liquidities expressed in the national currency, operations that are about to be clarified, bonuses referring to bond reimbursement, provisions for risks and expenses, debts resulted from borrowings and assimilated debts, assimilated suppliers and counts, creditor clients, other debts, all of them expressed in the national currency.

Out of these, the claims form a special category. The inflation effect upon these is a negative one, because they generate loses which increase according to the enchasing duration. Thus, if the enchasing is done according to the contract, then loses occur due to the difference in the purchasing power extant between the moment in which the enchasing was done and the moment in which the sale (the service) was performed. If the enchasing is done after the deadline, then the loss cannot be foreseen and if the enchasing no longer takes place then the company is has to ask for legal action to be taken.

The inflation has a greater impact in the case of claims connected to participants and of long-term receivables, because the borrowed sums do not have interest rates or if they have, then they have an insignificant value and therefore the enterprise that granted them can bare the losses concerning the purchasing power. Financial claims, representing sums of money that the state owes to the enterprises, are also affected by the inflation because there are no legal stipulations concerning the updating of their values.

In the case of debts (commercial, financial, and others), the inflation effect is totally reversed from the one manifested in the case of claims, especially in the case of commercial debts. The enterprise gains, if it has unpaid debts, but only if in the contract on which they are bases, does not explicitly stipulate, that the respective debts have to be updated at the exchange rate of the payment date. In the case of financial debts that are paid in the due time, the effect of the inflation is null. If the payment date is over passed then penalties that are superior to the inflation rate, will have to be paid.

The inflation has a negative effect upon securities, sums extant in the bank accounts, money extant in the payment counters and letter of credits. Thus, short term investments determine inhomogeneous values, while their accountancy values at the inventory moment is different from the market value, emphasizing the inflationary effect on enterprises that owe equities (if there is a minus in the accountancy value, then it is registered as provision for the equity depreciation and if it is a plus, then the increase is no longer registered).

The sums extant in bank accounts are affected by inflation thorough a decrease in their purchasing power and therefore, it is advisable to invest them, even for a short period of time, so

as to make the investment productivity equal to the inflation rate throughout the investment period or even to obtain a gain.

The letters of credit are also affected by the inflation because they do not have interest rates. Countermanding determines losses because of the depreciation of the purchasing power. If they are used, an advantage is obtained only if the sum stipulated in the contract is not brought to the inflation rate; however, such a situation cannot occur in an inflationary economy. Considering the fact that the currency elements are expressed at their nominal values, it is advisable for the company to have a negative currency situation.

The accounting of the inflation effects upon currency elements (debts and claims) will be complete, if the contract that is at the basis of the emergence of these elements has updating stipulations and if the enclashing date is over passed and the stipulated rate is at least equal to the inflation rate. If the interest rate is inferior to the inflation rate, then the only thing that is accounted is the gaining part or the loss which results from the contract stipulations.

When assessing the performances of an enterprise within an inflationary economy, the accountancy has to measure the results on three grounds: patrimonial, economical and financial. The span of time ranging from the beginning and the end of the accounting period is characterized by uncontrollable variations; the accountancy that will base its analysis on historic costs will mirror a deformed situation which can lead to unrealistic decisions. Therefore, reassessment represents the solution to combat the inflation negative influence.

1. REASSESSMENT SEEN AS AN ACCOUNTANCY REMEDY

Due to the situation created by the inflation, which produces distortions in the accountancy based on historic costs, a partial solution for limiting the negative effects would be the reassessment through which the constituent parts of the financial situations are updated while the information credibility and quality is increased.

At an international level, the reassessment process is regulated by the IAS 16 and the IAS 38, which impose the replacement of the asset net book value with its fair value, defined by IAS 16 as the market value. This is established on the basis of an assessment and if the asset is sold then it is assessed at the replacement cost (without an allowance for depreciation). If the fair value differs a lot from the accountancy value, then a reassessment is done. According to IAS 16, annual reassessments can be done.

In the case of inflationary economies, the assessments rhythm will be established by accountancy on the basis of the economic frame evolution. The reassessment must assure homogeneity in the remedy: "If a tangible asset is assessed, then the whole class of the respective element has to be reassessed as well" (IAS 16, art.34). If the asset value is increased through reassessment this is registered in the credit for owners' equity under the name of "reassessment differences"; if thorough assessment the accountancy value of an asset is diminished, then this is considered as an expense; however, these operations must not lead to the profit ascertaining.

The IAS 38 stipulates that in the case of intangible assets their fair value must be established by a rapport to an active market; if there is a market absence for this kind of asset, then it is maintained within accountancy as a cost, with the exception of any accumulated depreciation and any losses cumulated from the depreciation. In the case of the reassessment of an intangible asset, the depreciation cumulated at the reassessment date is either re-expressed proportionally with the change in the fair value of the asset so as to make its accountancy value after reassessment equal to its reassessed value or it is eliminated from the fair accountancy value of the asset and from the net value re-expressed at the level of the asset reassessed value.

The application of IAS 16 in Romania, has encounter numerous problems because, on one hand it involves huge amounts of money owed to assessors, while on the other, the bringing to the their fair value of fixed means and terrains would increase the allowance for depreciation expenses and the construction taxes.

The reassessment activity in our country is regulated especially by the Order no. 2374/2007. This order ratifies the following: “The economic entities can reassess the tangible assets extant at the end of the financial accounting periods, by reflecting the results within the accountancy documents.” It can be observed the usage of the modal verb “can”, which does not demonstrate the imperative character of the regulation and thus the reassessment is just an allowed operation. The document also stipulates the necessity of having explicative documents, the fact that the reassessment is done at the fair value and the reassessment frequency. If the reassessment result is increased in comparison with the fair accountancy value, then the order suggests methods for fixing this situation.

In conclusion, under the circumstances of a hyperinflationary economy, the reassessment is necessary for reflecting the accountancy reality with the purpose of drawing up a correct financial situation.

References

1. Boulescu M. - Situatiiile financiare simplificate, Ed. Tribuna Economica, Bucuresti, 2003;
2. Bunget O. – Contabilitatea româneasca între reforma si convergenta, Ed. Economica, Bucuresti, 2005;
3. Cernusca L. – Politici contabile de întreprindere, Ed. Economica, Bucuresti, 2006;
4. Colasse B. - Comptabilite generale, 7eme edition, Ed. Economica, Paris, 2001;
5. Deaconu A. – De la costul istoric la valoarea justa – mutatie profunda în contabilitatea contemporana, Congresul al XII-lea al Profesiei Contabile din România, Bucuresti, 2003;
6. Diaconu Ghe. - Contabilitate internationala: comparatii si armonizari, Ed. Biblioteca, Bucuresti, 2005;
7. Dutescu A. - Politici contabile de întreprindere, Ed. CECCAR, Bucuresti, 2003 ;
8. Feleaga N., Feleaga L. – Contabilitate financiara – o abordare europeana si internationala, Ed. Infomega, Bucuresti, 2005;
9. Ionescu C. - Informarea financiara în contextul internationalizarii contabilitatii, Ed. Economica, Bucuresti, 2003;
10. Pântea I.P. si Bodea Gh. – Contabilitatea financiara româneasca conforma cu directivele europene, Ed. Intelcredo, Deva, 2006;
11. Ristea M., Dumitru C. - Contabilitatea în managementul întreprinderii, Ed. Tribuna Economica, Bucuresti, 2005;
12. Tugui I. - Contabilitatea inflatiei, Ed. Economica, Bucuresti, 2001.