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ASSIGNMENT TITLE: Accounting for changes in prices

Accounting for changing prices which can also be referred to as **inflation accounting** is the updating or changing of accounting prices to meet the current value of goods and services. Most times when financial statements are to be prepared, the prices of assets at the date of recognition don’t conform to their current values because of steady fluctuation in the prices of goods in the market, mostly increasingly. The most significant effect of these changes is on the statement of financial position and should be updated since it is the most desired and demanded statement by investors, government, shareholders and other stakeholders. Now, if this is ignored, the values of assets can be understated the company may be unable to borrow because the collateral is understated. Understated values could cause another company (the acquirer) to forcefully attempt to replace the management of the company (Target Company) to approve the acquisition of the company. This is called **Hostile Takeover.** Furthermore, when income is overstated as well, the amount of tax charge by government will exceed the normal charge and shareholders demand for a higher dividend will tip over. Thus could destabilize a company.

Inflation rates can distort comparisons made between parent to company and company to company. This occurs usually when the companies of comparisons are situated in different countries and different inflation rates.

Although inflation proves to be an impediment for some organisations, in fact it’s a way maker for some others. When the purchasing power of money drops there are always the losers and winners. Entities (individual and company) benefit from inflation when they are the borrowers of money. Others suffer because they have cash and receivables/borrowers.

There are two methods for accounting for inflation; **general purchasing power (GPP) accounting/general price-level-adjusted historical cost** (GPLAHC) accounting which accounts for changes in the general price level by making adjustments to the historical costs of assets to update for changes in the purchasing power of the currency and; **current replacement cost (CRC)/ current cost (CC) accounting** which accounts for specific price changes by updating the values of assets from historical cost to the current cost to replace those assets. Each measure of net income relates to a specific concept of capital maintenance, they don’t give the same amount of net income.