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**Summary of Accounting for Changing Prices**

Conventional accounting results in a mix of features being reflected in the asset section of the Statement of Financial Position. Assets are reported in several ways e.g. short-term investments at either cost or current market value while plant and equipment at cost less accumulated depreciation. In order to keep the Statement of Financial Position relevant.

Inflation is the general increase in prices of goods and services. The measurement of the inflation rate also reflects the decrease in the purchasing power of the currency. The measurement determined might vary in contrast to the percentage because the measures of changes are different to specific prices.

Inflation affects the Statement of Financial position as assets are reported at historical cost and making it produce false information to users. Ignoring changes in prices of assets can lead to:

1. A negative impact on the company’s ability to borrow also, can invite hostile takeover to the extent that the current market price of a company’s stock does not reflect the current value of assets.
2. Increase in taxes leading to a demand of higher level of dividend by stockholders which may furthermore lead to liquidity problems.
3. Distortion in the comparison across companies and also, distortion is the comparison across parent companies and subsidiaries.

**Methods of Accounting for Changing Prices**

The two solutions developed to deal with the distortions caused by historical cost (HC) accounting are:

1. Account for changes in the general price level:this makes adjustments to thehistorical costs of assets to update for changes in the purchasing power of the currency and is referred to as general price-level-adjusted historical cost (GPLAHC) accounting or, general purchasing power (GPP) accounting.
2. Account for specific price changes: this is done by updating the values of assets from historical cost to the current cost to replace those assets. This is known as current replacement cost (CRC) or, simply, current cost (CC) accounting.

**Historical Cost (HC)** income is the amount that can be distributed to owners while maintaining the “nominal” amount of contributed capital at the beginning of the year. However, the company is not as well off at the end of the year as it was at the beginning of the year. baskets of goods. The conventional HC model of accounting ignores the loss in purchasing power of the beginning of year amount of capital.

**General Purchasing Power (GPP)** Accounting nonmonetary assets and liabilities, stockholders’ equity, and all income statement items are restated from the GPI at the transaction date to the GPI at the end of the current period. Non-current assets and intangible assets and the related depreciation and amortization would also be restated for changes in general purchasing power.

**Current Cost (CC)** Accounting involves maintaining the purchasing power of equity does not necessarily ensure that the company is able to continue to operate at its existing level of capacity, because the prices of specific goods and services purchased by an individual company do not necessarily increase at the rate of average inflation.