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## General Price-Level Accounting: Monetary Gains and Losses

Robert K. Foss

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GENERAL PRICE-LEVEL ACCOUNTING: MONETARY GAINS AND LOSSES

by

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Bachelor of Arts, Concordia College 1965



An Independent Study  
Submitted to the Faculty  
of the  
University of North Dakota  
in partial fulfillment of the requirements  
for the degree of  
Master of Science

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The most significant and persistent complaint about published financial statistics in recent years has been that they do not measure the true economic life of life. Inflation is a reality throughout the world, yet its effects are unmeasured in financial statements prepared in accordance with generally accepted accounting principles in the United States and in most of the other countries of the western world.

The Financial Accounting Standards Board (FASB) issued Statement Number 33 entitled, Financial Reporting and Changing Prices.

The Board believes that this Statement meets an urgent need for information about the effects of

<sup>1</sup> FASB Statement No. 33, February 1, 1975.

<sup>2</sup> Sidney Branson and Robert L. Kelly, "Inflation Accounting," *Expanded Analysis*, Spring 1975, January 1975, p. 11.

## CHAPTER I

### INTRODUCTION

Inflation seems to make the headlines quite often. Recent news reports revealed that the government's consumer price index rose 13.3% in 1979.<sup>1</sup> The problem of inflation in the United States is troublesome to most people. Common remarks include, "I cannot buy as much as I could before", and "My wages do not keep up with inflation." Although most people realize that inflation affects them, they usually do not know how to quantify the effects of inflation.

The most significant and persistent complaint about published financial statements in recent years has been that they do not recognize the economic facts of life. Inflation is a reality throughout the world, yet its effects go unrecognized in financial statements prepared in accordance with generally accepted accounting principles in the United States and in most of the other countries of the Western Worlds.<sup>2</sup>

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The Board believes that their Statement meets an urgent need for information about the effects of

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<sup>1</sup>Facts on File 40, (February 1, 1980): 75.

<sup>2</sup>Sidney Davidson and Roman L. Weil, "Inflation Accounting," Financial Analysts Journal 31 (January-February 1975): 27.

changing prices. If that information is not provided: Resources may be allocated inefficiently; investors and creditors' understanding of the past performance of an enterprise and their ability to assess future cash flows may be severely limited; and people in government who participate in decisions on economic policy may lack important information about the implications of their decisions."<sup>3</sup>

This paper will primarily address one portion of the FASB Statement Number 33 which deals with monetary gains and losses. The pros and cons for the recording of monetary gains and losses will be reviewed. A variety of methods for recording monetary gains and losses will be analyzed.

Basically, monetary gains result from holding monetary liabilities (i.e., fixed in a specific dollar amount) during periods of inflation or holding monetary assets (e.g., cash and receivables) during periods of deflation. When prices are rising rapidly, people usually understand that losses will be realized if they hold cash. Germany, in 1923, provides an extreme example. "German workmen would, on payday, race from job to shops in order to change their wages into goods before prices rose again. In such extreme circumstances, figures for this loss or gain might well be the most significant part of the accounts."<sup>4</sup>

An example will assist in visualizing how monetary

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<sup>3</sup>Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices" (Stamford, Conn.: FASB, 1979), Summary, ii.

<sup>4</sup>William T. Baxter, Accounting Values and Inflation (London: McGraw-Hill Book Company, 1975), p. 39.

gains can result. In Exhibit I, the monetary accounts and the monetary gain for a hypothetical company are summarized. For the sake of simplicity, there were no transactions for the year and this was the first year of business. Prices rose 10% during the year (i.e., prices rose from 1.00 to 1.10).<sup>5</sup> The mixed dollar heading refers to the conventional method of recording account balances based on historical cost. The Dollar of Year End heading refers to the FASB Statement Number 33 method of recording balances adjusted due to changes in the general price levels (i.e., constant dollar value).

## Exhibit I

<u>Description</u>	<u>Mixed Dollar Opening &amp; Closing Balances</u>	<u>Dollar of Year End Opening Balances</u>	<u>Monetary Gains/ (Losses)</u>	<u>Dollar of Year End Closing Balances</u>
Cash	\$ 2,000	\$ 2,200	\$ (200)	\$ 2,000
Loan Payable	(12,000)	(13,200)	1,200	(12,000)
Total	<u>\$(10,000)</u>	<u>\$(11,000)</u>	<u>\$ 1,000</u>	<u>\$(10,000)</u>

With no transactions, the mixed dollar opening and closing balances are the same. The \$2,000.00 opening cash is also reflected as ending cash in spite of the fact that the cash does not have the same purchasing power on the two different dates. On the other hand, under the general price

<sup>5</sup>Unless stated to the contrary, all examples and discussions in this independent study will assume inflationary conditions.

level adjusted method, the ending cash balance of \$2,000.00 could only be reflected at that value if the beginning balance was 10% higher. Since the cash has lost 10% of its purchasing power during the year, the beginning balance had to be 10% higher than the \$2,000.00 ending balance. Conversely, if purchases of \$2,000.00 were made at the beginning of the year, due to inflation the purchased goods would be worth \$2,200.00 at the end of the year.

Regarding the loan payable, there is a \$1,200.00 monetary gain because at the end of the year dollars worth less could be used to pay the fixed dollar commitment. That is, the business would be better off financially to pay the loan at the end of the year than at the beginning of the year due to the decreasing purchasing power of the dollar.

The factors that determine whether monetary gains or losses will result are the inflation or deflation rates, and the net monetary asset or liability balances. During periods of deflation, monetary losses result when monetary liabilities exceed monetary assets. Also, monetary losses will be realized when monetary assets exceed liabilities during a period of inflation. Conversely, gains result when liabilities exceed assets during inflation.

Many people agree that monetary changes in purchasing power should be reflected in constant dollar value accounting, but some disagree totally or think only certain gains or losses should be recognized. The monetary gains have been

called funny money because the firm cannot spend the gains on dividends or expenses. For example, the \$1,200.00 gain reflected in Exhibit I appears to be only a paper gain since cash of \$1,200.00 was not received. Some accountants record monetary gains on long-term liabilities only at the point of repayment with no refinancing. In order to be conservative, sometimes only monetary losses are recorded. Also, there is some dispute as to when gains/losses on monetary assets are realized. These and additional opinions and theories will be analyzed in Chapter III.

Monetary gains/losses are difficult for the reader of financial statements to interpret. Unsophisticated investors may be misled by the gains/losses. For example, some businesses may be headed toward financial disaster, but continue to reflect net profits due to monetary gains. These interpretation difficulties will also be presented in Chapter III.

In addition to the comprehensive presentation and analysis in Chapter III, Chapter II will provide some background and history regarding inflation accounting. Chapter IV will demonstrate the monetary gain and loss theories by converting conventional historical financial statements to general price-level adjusted financial statements. The hypothetical statements reviewed will be for a utility, a bank, and a steel company. Finally, Chapter V will provide a summary. Chapter V will also present the conclusions.



## CHAPTER II

### DEVELOPMENT

The conventional historical based financial statements appear to have met the needs of society. With the increasing rates of inflation, general price-level (GPL) adjusted statements seem to be necessary.

Inflation has been present in most countries of the world for over forty years, although recent trends would seem to indicate that the level of three per cent per annum that was accepted as normal in the 1950's and early 1960's has now been replaced by much higher annual rates.<sup>6</sup>

With the changes in dollar values, alternatives to conventional financial statements should be explored.

Using conventional historical based financial statements during inflationary times is similar to measuring the height of people by non-standard measures. For example, a person may be 75 pencils high. Since pencils vary in length, this measurement gives no idea of the height of the person. The measuring of the width of a field by feet and the length by yards is another example of mingling various measures. If the length of twenty yards is multiplied by the width of thirty feet, the product of 600 does not make sense. The yards must be

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<sup>6</sup>Patrick R. A. Kirkman, Accounting Under Inflationary Conditions, 2nd ed. (London: George Allen & Unwin, 1978), p. 6.

converted to feet or feet to yards, which is similar to changes that must be made in GPL accounting. After the twenty yards are converted to sixty feet, the product of sixty feet and thirty feet results in 1,800 square feet. According to an article in Financial Executive by Robert C. Thompson, in an inflationary environment the historical cost model is beset with significant shortcomings:

1. A tax based on historical earnings is in reality a tax on capital during and subsequent to a period of inflation.
2. Regulatory agencies might establish improvident regulatory procedures and price controls in the belief that profits are escalating inordinately.
3. Equity investors may be misled by such ratios as return on investment as well as trend data on earnings.
4. A dividend policy geared to a fixed percentage of net income represents an erosion of the cash reinvested in the business.
5. All the conventional ratios may indicate a firm is growing, whereas in real terms it is in a liquidation phase. Aside from adverse impacts on the firm there are possibly even more serious and insidious impacts on the productive capacity and efficiency of the economy as a whole.<sup>7</sup>

Accountants in the United States have become more and more concerned throughout the years about addressing the problems of conventional historical financial statements.

In 1935, Henry W. Sweeney expressed concern about the two

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<sup>7</sup>Robert C. Thompson, "Accounting for Inflation: United States," Financial Executive 46 (December, 1978): 58.

per cent inflation rates and published an article on stabilized accounting.<sup>8</sup>

Back in 1951, George O. May headed a study group on concepts of business income. He and a group of accountants, economists, lawyers, and businessmen concluded that business income should be determined by measuring revenues and costs in units of equal purchasing power. Despite the eminent auspices, the concept never got off the ground, partly because inflation averaged<sup>9</sup> less than two per cent a year over the next 15 years.

In 1961 the Accounting Principles Board (APB) authorized a research study to determine appropriate accounting methods under inflationary conditions. The study, which was published in 1963, recommended that "companies present supplementary financial statements in which all elements have been restated for changes in the general level of prices (inflation and deflation)."<sup>10</sup> In June of 1969, the APB issued Statement Number 3 which recommended supplementary general price-level information. The Statement was not often followed, possibly because it was not mandatory.

The first required information regarding the effects of inflation was the result of Securities and Exchange Commission (SEC) action in 1976. The SEC required "certain publicly held companies to disclose replacement cost information

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<sup>8</sup>James R. Pinkert and Imogene A Posey, "Changes in Price-Levels," The Woman CPA (January, 1978): 18.

<sup>9</sup>Leonard M. Savoie, "Price Level Accounting, Practical Politics, and Tax Relief," Management Accounting 58 (January, 1977): 15.

<sup>10</sup>Paul Rosenfield, "Accounting for Inflation - A Field Test," The Journal of Accountancy 127 (June, 1969): 45.

about inventories, cost of sales, productive capacity, and depreciation."<sup>11</sup> In 1979, the Financial Accounting Standards Board (FASB) published Statement Number 33 which "calls for information to measure the effects of both the general inflation and specific price changes."<sup>12</sup> This statement requires supplementary information be provided by certain large publicly held corporations. To prevent a duplication of required statement information, the SEC requirements have been rescinded in some instances.

Inflation has also been a serious problem in foreign countries. For example, in some South American countries, the rates have been over 100,000 per cent.<sup>13</sup> "In Brazil, price-level accounting is practiced and it is recognized for income tax purposes."<sup>14</sup> In the United Kingdom, the Sandilands Committee chose a form of replacement cost accounting.<sup>15</sup>

Before financial information can be adjusted to show the effects of inflation or deflation, an index must be chosen.

A price index has been defined as a series of measurements, expressed as percentages, of a

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<sup>11</sup>Statement of Financial Accounting Standards Number 33, Appendix B, Paragraph 74.

<sup>12</sup>Louis Bisgay, "Management Accounting Practices," Management Accounting 61 (December, 1979): 6.

<sup>13</sup>Pinkert and Posey, "Changes in Price-Levels," p. 18.

<sup>14</sup>Savoie, "Price Level Accounting, Practical Politics, and Tax Relief," p. 16.

<sup>15</sup>Ibid.

relationship between the average price of a group of goods and services at a succession of dates, and the average price of a similar group of goods and services at a common date.<sup>16</sup>

The various indexes normally considered for use are specific indexes, the Gross National Product Implicit Price Deflator (GNP Deflator), and the Consumer Price Index (CPI) for All Urban Consumers.

Specific indexes may be used in determining current costs of inventory and property, plant and equipment in accordance with FASB Statement Number 33. The specific index considers changes in prices only for a certain class of goods. For example, a manufacturer using copper would use an index that considers copper prices. This is in contrast to a general index that considers a variety of goods which probably are not owned by the firm. It is argued by some that specific price indexes should be used because then the firm will not be weakened by paying dividends in excess of the individual firm's real profits.<sup>17</sup>

The GNP Deflator is published by the Department of Commerce. "It is the most comprehensive indicator of the general price-level in the United States."<sup>18</sup> "In the GNP

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<sup>16</sup>Kirkman, Accounting Under Inflationary Conditions, p. 18.

<sup>17</sup>R. S. Gynther, Accounting for Price-Level Changes: Theory and Procedures (New York: Pergamon Press, 1966) p. 55.

<sup>18</sup>Vincent C. Brenner and James J. Benjamin, "Financial Reporting on Units of General Purchasing Power," Management Accounting 57 (June, 1976): 17.

Deflator series, the average price of a bundle of goods and services representative of the total output in the economy in the year 1958 is designated 100."<sup>19</sup> The GNP Deflator is published quarterly, APB Statement Number 3 called for the use of the GNP Deflator in calculating GPL adjustments.

The most widely known index is the CPI. Because the GNP Deflator and the CPI index are based on different goods, the results of using the different indexes may differ. "Over the long run, however, the two indexes have changed at approximately the same rate."<sup>20</sup> Since all people are consumers, more people probably understand the CPI Index.

Preservation of the investor's purchasing power is the overriding rationale for the need for supplemental information and for the relevance of the CPI whenever an index is used; the shareholder presumably can personally relate to that index when evaluating his investment.<sup>21</sup>

The FASB Statement Number 33 provides for the use of the CPI in determining constant dollar values/GPL adjustments.

The CPI was changed in 1978. The old index considered

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<sup>19</sup> Sidney Davidson, Clyde P. Stickney and Roman L. Weil, Inflation Accounting (New York: McGraw-Hill Book Company, 1976), p. 92.

<sup>20</sup> Accounting Principles Board, "Financial Statements Restated for General Price-Level Changes," APB Statement No. 3 (AICPA, 1969), paragraph 9.

<sup>21</sup> Philip L. Defliese, "Inflation Accounting: Pursuing the Elusive," The Journal of Accountancy 147 (May, 1979): 62

spending patterns of urban wage and clerical workers which consisted of less than half of the population of the United States. The new index considered spending patterns of all families in 85 metropolitan areas, which consisted of about 80 per cent of the population of the United States.<sup>22</sup>

The indexes are used for providing information not available in conventional historical based financial reports. The similarities and differences between conventional statements and GPL statements will now be considered. GPL statements are similar in following generally accepted accounting principles such as revenue realization, expense recognition, and the initial recording of assets and liabilities at historical cost.

Obviously, there are also several differences in GPL statements. GPL adjusted statements are primarily different in three aspects. First, depreciation is based on the cost of the assets adjusted by a general price index. Since capital assets are held for many years, depreciation expense will be higher when GPL statements are presented under inflationary conditions. Cost of goods, likewise, will be higher when GPL statements are prepared under inflationary conditions. Of course, the variance will depend on the rate of inflation and the inventory valuation method. The cost of goods sold is also based on historical

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<sup>22</sup>Facts on File, p. 75 and 76.

cost adjusted for changes in the general price level. The final major difference between conventional and GPL statements is the gain or loss on monetary items reflected in GPL statements. "Price-level adjusted income statements explicitly show the gain for the period in purchasing power captured by a debtor (or the loss suffered by a creditor) during a period of rising price levels."<sup>23</sup>

The differences in GPL statements provide important information not available to the readers of conventional statements. As mentioned earlier, the GPL statement may be used for preservation of the stockholder's purchasing power. For example, General Motors stockholders may have been pleased with earnings until learning the restated constant dollar earnings. "Stated in constant dollars, the company's net income was lower in 1978 than in 1973--a startling contrast to the 46 per cent gain reported officially."<sup>24</sup>

The primary objective of adjusting historical amounts for changes in the general price level is to convert monetary units (for example, dollars) reflecting varying amounts of general purchasing power into a common measuring unit reflecting a uniform amount of general purchasing power for all measurements.<sup>25</sup>

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<sup>23</sup>Sidney Davidson and Roman L. Weil, "Inflation Accounting: Public Utilities," Financial Analysts Journal 31 (May-June, 1975): 30.

<sup>24</sup>"Deflating Those Hefty Profits," Fortune 99 (May 7, 1979): 304.

<sup>25</sup>Davidson, Stickney and Weil, Inflation Accounting, p. 5.



GPL statements make interperiod comparisons, arithmetic calculations, and profit and loss statements more meaningful, and provide inflation impact information across firms.

Although there are many advantages to GPL statements, there are also several disadvantages. The advantages and disadvantages of GPL statements or general purchasing power (GPP) statements according to Elwood L. Miller in an article in the Harvard Business Review are as follows:

#### Advantages of general purchasing power (GPP) statements

1. GPP statements measure changes in general price levels now ignored by disclosing impact of inflation on the general purchasing power of the dollar.
2. Statements are reliable enough for reporting purposes since statements are primarily oriented toward third parties.
3. Statements are sufficiently objective and verifiable.
4. GPP is relatively easy to apply.
5. Statements facilitate comparability by using common unit of measure.
6. As a "dated dollar," the GPP unit replaces the "rubber" dollar. (The gross national product implicit price deflator is the best comprehensive index.)
7. Statements disclose effective or "real" tax rates and thereby enhance progress toward favorable changes in tax laws.
8. GPP represents a less drastic departure from historical cost.

9. Statements make more realistic income relationships possible.
10. GPP aids management evaluation and use.

#### Disadvantages of GPP statements

1. GPP does not account for changes in specific prices.
2. GPP is not logically consistent. While specific price changes are said to be ignored, price-level adjusted amounts reported for assets cannot be greater than their net realizable values.
3. General indexes are not always appropriate.
4. Results could be misleading.
5. Statements distort "normal" income.
6. Statements confuse profitability and liquidity.
7. Statements ignore other effects on prices, such as technology, competition, and economic environment of some companies.
8. Use of GPP of the dollar as the measuring unit mandates the use of unsound procedures for the translation of foreign operations.
9. The costs are not worth the alleged benefits.<sup>26</sup>

This chapter reviewed some history of inflation accounting and presented some issues related to GPL statements. Chapter III will discuss the monetary gain and loss theories.

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<sup>26</sup>Elwood L. Miller, "Price-level Accounting," Harvard Business Review 56 (November/December, 1978): 113, 114.

### CHAPTER III

#### CRITIQUE

There has been considerable controversy regarding monetary assets and liabilities in the presentation of GPL statements. In this chapter, the problems of monetary gains and losses will be discussed after a review of the definitions of monetary assets and liabilities. The chapter will close by presenting some alternative methods for treating monetary items.

Monetary items change in value when there are changes in the general prices. Considering this characteristic, monetary assets could be defined as "assets whose holders gain or lose general purchasing power during inflation or deflation simply as a result of general price-level changes."<sup>27</sup>

The definitions of monetary assets and liabilities given in FASB Statement Number 33 are as follows:

A monetary asset is money or a claim to receive a sum of money the amount of which is fixed or determinable without reference to future prices of specific goods or services. A monetary liability is an obligation to pay a sum of money the amount of which

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<sup>27</sup>Lloyd C. Heath, "Distinguishing Between Monetary and Nonmonetary Assets and Liabilities in General Price-Level Accounting," The Accounting Review 47 (July, 1972): 464.

is fixed or determinable without reference to future prices of specific goods or services.<sup>28</sup>

The only possible problem with this definition may be the reference to fixed. The definition is not referring to gold, which was once fixed in price by the government, or to other prices set by the government.

Loyd C. Heath in an Accounting Review article gave this definition of monetary assets:

Monetary assets are those assets whose holders gain or lose general purchasing power during inflation or deflation simply as a result of general price-level changes. Monetary assets include (a) currency holdings of the same monetary unit used in the financial statements being prepared and (b) except for those noted below, claims fixed in terms of the same monetary unit used in the financial statements. The term "claims" as used here includes items fixed in terms of an absolute predetermined number of monetary units by contract, court of law, legislative enactment or administrative settlement by government agency, such as bank accounts, accounts receivable, awards of monetary damages arising out of litigation and tax refunds. It excludes items which merely have a fixed price that can be altered by the same authority that fixed the price initially, such as gold and other price controlled commodities. The only claims fixed in terms of the same monetary unit as that used in the financial statements that should not be accounted for as monetary are those accounted for on the basis of current market price rather than on the basis of the claim itself.<sup>29</sup>

In addition to the definitions of monetary assets and liabilities given in FASB Statement Number 33, examples of

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<sup>28</sup>Statement of Financial Accounting Standards No. 33, Paragraph 47.

<sup>29</sup>Heath, "Distinguishing Between Monetary and Non-monetary Assets and Liabilities in General Price-Level Accounting," p. 467.

monetary and nonmonetary items are also provided. These examples, plus the definitions, give excellent guidance in determining which assets and liabilities are monetary.

In compliance with FASB Statement Number 33, all monetary assets and liabilities are considered in calculating purchasing power gain or loss. According to FASB Statement Number 33, purchasing power gain or loss should be determined as follows:

The purchasing power gain or loss on net monetary items shall be equal to the net gain or loss found by restating in constant dollars the opening and closing balances of, and transactions in, monetary assets and liabilities. An enterprise that presents comprehensive supplementary financial statements on a historical cost/constant dollar basis may measure the purchasing power gain or loss in average-for-the-year constant dollars or in end-of-year constant dollars; other enterprises shall measure the purchasing power gain or loss in average-for-the-year dollars.<sup>30</sup>

The comprehensive supplementary financial statements referred to in FASB Statement Number 33 are those that present more than the minimum requirements for historical cost/constant dollar statements. The minimum requirements call for the restatement of "inventory, property, plant and equipment, cost of goods sold, depreciation, depletion, and amortization expense and any reductions of the historical cost amounts of inventory, property, plant, and equipment to lower recoverable

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<sup>30</sup> Statement of Financial Accounting Standards No. 33, Paragraph 50.

amounts."<sup>31</sup> In accordance with FASB Statement Number 33, all purchasing power gains and losses are included in the supplementary income statements.

When monetary gains and losses on all monetary assets and liabilities are reflected in the income statement, the resulting net income figure may be misleading. Now some of the interpretation problems will be discussed.

Hopefully, financial statements will be understood by the readers. Monetary gains and losses may be misinterpreted by the unsophisticated reader. The reader may look at the final net income figure without realizing the significance of the monetary gain included in the net income figure. Certainly, the firms that provide GPL adjusted statements should not be disadvantaged because the average reader does not understand the significance of the monetary gain or loss included in the net income.

This leads to the question, "What should the net income figure reveal to the reader?" Should it be the net cash flow? Should it be the distributable income? The net income figure reflected must be understood so it can be useful in making current decisions.

It is the opinion of many that the GPL net income figure should indicate the extent to which the firm is better off. Certainly, the unsophisticated financial statement

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<sup>31</sup>Ibid., Paragraph 40.

reader expects the firm to be better off if net income is reflected. But is this true if debt is growing and the firm's income is not adequate to meet debt service requirements?

According to R. S. Gynther, profit is as follows:

...profit for a firm during any period of time is the maximum amount expressed in dollars which, if there were no additional investments during the period, could be distributed by the firm to its beneficiaries without impairing its operating capacity.

Frank E. Block, in a Financial Analysts article, defines true earning:

...expressed in current dollars (whatever their purchasing power), that represents the net cash inflow available to management for (1) payment of dividends or (2) retention by the company to expand the stream of future dividends or accelerate their timing.<sup>33</sup>

According to APB Statement Number 4, net income is:

...the excess of revenue over expenses for an accounting period, which is the net increase in owners' equity of an enterprise for an accounting period from profit-directed activities that is recognized and measured in conformity with generally accepted accounting principles.<sup>34</sup>

These definitions of income do not seem to be in harmony with the concept of monetary gains and losses. Many financial statement readers, especially the unsophisticated reader,

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<sup>32</sup>Gynther, Accounting for Price-Level Changes: Theory and Procedures, 140.

<sup>33</sup>Frank E. Block, "Inflation Accounting," Financial Analysts Journal 34 (November-December, 1978): 78-79.

<sup>34</sup>Accounting Principles Board, "Basic Features and Basic Elements of Financial Accounting," APB Statement No. 4 (AICPA, 1969), paragraph 21.

will not have an appropriate net income definition in mind when reading financial statements that include monetary gains and losses in net income.

"Some people seem to feel that this inflationary gain on debt accruing to the stockholders is not real and, in any event, is not a gain out of which dividends can be paid."<sup>35</sup> Normally stockholders expect the net income to be available for dividend payments. In fact, stockholders may become alarmed if the GPL statements reflect a substantial net income, but dividends are not declared. The GPL statements may have reflected a net loss before considering the monetary gain. In some instances the monetary gain may not be realized in the form of cash for many years. Obviously, the monetary gains may lead the stockholders to unrealistic expectations regarding the declaration of dividends.

Regulated companies, such as utilities, may have problems in obtaining favorable rate structures if monetary gains are included in the GPL net income. If regulators consider monetary gains "this could cause regulatory commissions to hold down rate increases or in extreme situations even cause rate reductions, thereby causing more problems for those already having financial difficulties."<sup>36</sup>

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<sup>35</sup>Thomas D. Flynn, "Why We Should Account for Inflation," Harvard Business Review 55 (September-October, 1977): 149.

<sup>36</sup>Philip J. Harmelink and Philip L. Kintzele, "Price Level Adjustments on Electric Utility Statements," Public Utility Fortnightly 95 (February 13, 1975): 33.



Utilities will have higher constant dollar value net income unless other GPL adjustments such as for depreciation more than offset the monetary gains. "This is something not likely to happen to industries with high debt-equity ratios and with large investments in plant assets in view of post-World War II inflation rates."<sup>37</sup> With large capital investments, the utility companies' GPL adjustments for depreciation will be substantial, but regulatory commissions may be reluctant to consider the depreciation adjustments and disregard the monetary gains.

When are gains on monetary assets or liabilities realized? The revenue realization principle specified in APB Statement No. 4 is:

Revenue is generally recognized when both of the following conditions are met: (1) the earning process is complete or virtually complete, and (2) an exchange has taken place.<sup>38</sup>

Revenue includes the results of any activities that cause increases in assets or decreases in liabilities and, therefore, increase the owner's equity. In applying condition one to a monetary gain, the earning process does not seem to stop until there is a change in the direction of price movements or until the disposition of monetary items. Regarding

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<sup>37</sup>Philip J. Harmelink and Philip L. Kintzele, "Proposals for Dealing with Inflation Accounting," Public Utilities Fortnightly 100 (August 4, 1977): 21.

<sup>38</sup>Accounting Principles Board, "Generally Accepted Accounting Principles-Pervasive Principles," APB Statement No. 4 (AICPA, 1969), paragraph 14.

condition number two, the exchange is normally the trade of a non-monetary asset for a monetary asset rather than the relinquishment of a monetary asset.

When are losses on monetary assets or liabilities realized? In accordance with APB Statement No. 4, the important classes of expenses are:

- (1) costs of assets used to produce revenue (for example, cost of goods sold, selling and administrative expenses and interest expense)
- (2) expenses from nonreciprocal transfers and casualties (for example, taxes, fires and theft)
- (3) costs of assets other than products (for example, plant and equipment or investments in other companies)
- (4) Costs incurred in unsuccessful efforts
- (5) Declines in market prices of inventories held for sale<sup>39</sup>

Expense includes the results of any activities that cause decreases in assets or increases in liabilities and, therefore, decrease the owner's equity. Monetary losses do not seem to fit any of the above classes very well. The closest one seems to be number five.

The definition of realization is difficult when considering monetary gains and losses.

Does realization take place (a) when the cash is actually paid to suppliers, when the cash is collected from debtors, and when liquid cash is finally spent, etc., or (b) are the profits and losses on these items realized immediately the

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<sup>39</sup> Ibid, paragraph 18.

changes in the relevant price levels occur, irrespective of when cash collection or payments are actually made?"<sup>40</sup>

The conventional realization principles do not seem to be applicable to monetary gains and losses. Deviating from the realization principles to recognizing gains and losses when indexes indicate a change in value seems to be a substantial departure from the former principles. Maybe there is also a departure from conservatism, which is a modifying convention applied to generally accepted principles.<sup>41</sup>

The gain on net monetary liabilities may be misleading if the related interest expense is not considered. "Interest expense usually includes a factor for inflation, particularly when debt is contracted for during periods of inflation or in anticipation of inflation."<sup>42</sup> The monetary gains and interest expense should be considered together rather than highlighting the monetary gains in one portion of the income statement and listing interest expense with other expenses.

Should monetary gain be reflected in GPL statements if related interest expense more than offsets the gain? If interest expense is more than the monetary gain applicable

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<sup>40</sup>Gynther, Accounting for Price-Level Changes: Theory and Procedures, p. 153.

<sup>41</sup>Accounting Principles Board, "Generally Accepted Accounting Principles-Pervasive Principles," paragraph 35.

<sup>42</sup>Flynn, "Why We Should Account for Inflation," p. 149.

to the particular debt, inflation may have been correctly anticipated. For example, if Mr. Jones loaned \$5,000.00 to Mr. Smith with no inflation, he could obtain his desired 12% return by charging \$600.00 interest for the annual note. In the case of inflation, if Mr. Jones correctly anticipated the 10% annual inflation, he would charge \$1,160.00 interest (23.2%) in order to obtain the 12% return. At the end of the year, Mr. Jones would receive \$5,500.00 as his original investment and \$660.00 as interest income. Since inflation was correctly anticipated, Mr. Jones earns exactly 12% (\$660.00) of the principal constant dollar value (\$5,500.00). Obviously, if Mr. Jones overestimated the inflation rate, he would receive a return greater than 12%. "After the fact, who benefited from inflation, the borrower or the lender, depends on whether the actual rate of price increase during the term of the loan differed from the rate anticipated by both parties to the loan at the time it was made."<sup>43</sup>

Monetary gains on net monetary liabilities seem to encourage the incurrence of debt. "It has been suggested that with enough debt outstanding, a firm can report profits (on a general price level adjusted basis, including monetary gains) right up to the time it goes bankrupt."<sup>44</sup> A firm could convert a GPL net loss to net income if debt could be

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<sup>43</sup>Davidson, Stickney and Weil, Inflation Accounting, p. 108.

<sup>44</sup>Davidson and Weil, "Inflation Accounting," p. 77.

obtained at a favorable interest rate. For example, if the anticipated GPL annual net loss was \$50,000.00, \$550,000.00 would have to be borrowed at the beginning of the year in order to generate a \$50,000.00 monetary gain. More would have to be borrowed if the firm used the \$550,000.00 to purchase assets (e.g., saleable merchandise) that did not generate a GPL adjusted return at least equal to the interest expense. Even if management refrains from incurring debt to generate larger monetary gains, the existing debt may be converting net losses to net income. Since monetary gains are not reported on the cash basis, the firm may be moving towards bankruptcy while reporting GPL net income. Certainly, GPL financial statements should not encourage the incurrence of debt or provide misleading information regarding the firm's progress.

Hopefully the problems discussed can be solved. In an attempt to address the problems, the remaining portion of this chapter will discuss some alternative methods for handling monetary gains and losses.

In spite of the fact that there are many problems regarding monetary gains and losses, the gains and losses should not be ignored in inflation accounting. "It does seem rather illogical that these items should be ignored in an accounting system that is supposed to show the overall effects of inflation on the profit or loss of the organization."<sup>45</sup>

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<sup>45</sup>Kirkman, Accounting Under Inflationary Conditions, p. 65.

FASB Statement No. 33 requires certain publicly held corporations to include monetary gains and losses in the GPL net income. According to FASB Statement No. 33, all monetary assets and liabilities are considered in calculating monetary gains and losses. See Exhibits II and III for an example of conventional historical financial statements and GPL adjusted statements.

## Exhibit II

## Conventional Balance Sheet and Income Statement

## Conventional Balance Sheet

	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Increase (Decrease)</u>
Monetary Current Assets	\$100,000	\$100,000	\$ -0-
Monetary Noncurrent Assets	200,000	200,000	-0-
Plant Assets	550,000	495,000	(55,000)
Total Assets	<u>\$850,000</u>	<u>\$795,000</u>	<u>\$(55,000)</u>
Monetary Current Liabilities	\$300,000	\$300,000	\$ -0-
Monetary Long-term Liabilities	400,000	400,000	-0-
Equity	150,000	95,000	(55,000)
Total Liabilities and Equity	<u>\$850,000</u>	<u>\$795,000</u>	<u>\$(55,000)</u>

## Conventional Income Statement

Income	\$600,000
Miscellaneous Expense	\$600,000
Depreciation	<u>55,000</u>
Net Loss	<u>\$ 55,000</u>

## Exhibit III

GPL Balance Sheet and Income Statement  
in accordance with FASB Statement No. 33

## GPL Balance Sheet

	Beginning Balance	Ending Balance	Increase (Decrease)
Monetary Current Assets	\$110,000	\$100,000	\$(10,000)
Monetary Noncurrent Assets	220,000	200,000	(20,000)
Plant Assets	605,000	544,500	(60,500)
Total Assets	<u>\$935,000</u>	<u>\$844,500</u>	<u>\$(90,500)</u>
Monetary Current Liabilities	\$330,000	\$300,000	\$(30,000)
Monetary Long-term Liabilities	440,000	400,000	(40,000)
Equity	165,000	144,500	(20,500)
Total Liabilities and Equity	<u>\$935,000</u>	<u>\$844,500</u>	<u>\$(90,500)</u>

## GPL Income Statement

Income	\$600,000
Miscellaneous expense	\$600,000
Depreciation	<u>60,500</u>
Loss from continuing operations	<u>\$ 60,500</u>
Purchasing power gain on net monetary liabilities	<u>\$ 40,000</u>

In Exhibits II and III, the only transactions affecting the balance sheets are cash income and cash expenditures, both at \$600,000 and depreciation expense at 10% of the declining balance. Therefore, the conventional income statement reflects a net loss of \$55,000, which is equal to the depreciation expense. The GPL statements show the effects of 10% inflation for the year. The monetary assets decreased \$30,000 in value and monetary liabilities

decreased \$70,000, for a net monetary gain of \$40,000 which is reflected in the GPL income statement. The nonmonetary assets were valued at \$605,000 (\$550,000 + 10%) before depreciation and depreciation expense was \$60,500.

Some accountants have suggested that only realized monetary gains and losses should be recognized. The assumption being that gains and losses are not realized when the price index changes, but at a later time. For example, according to William T. Baxter in his book, Accounting Values and Inflation, "if trade profit on non-monetary assets is not realized until it is turned into money assets, then gain on money assets is not realized until it is invested in non-money assets."<sup>46</sup> Under this method, the income statement in Exhibit III would not reflect any purchasing power gain or loss unless realized. If monetary gains and losses are not recognized until later, the balance sheet amounts also must be adjusted either by changing the carrying value of the monetary assets and liabilities or adjusting another account, such as a reserve account.

Arthur Andersen and Company has suggested spreading monetary gain on long term debt over the life of the debt or the assets purchased. This would be accomplished by crediting the gain to the asset account. The gain would be recognized by lower depreciation throughout the remaining life of the

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<sup>46</sup>Baxter, Accounting Values and Inflation, p. 153.



asset or debt.<sup>47</sup> See Exhibit IV for a restatement of the Exhibit III income statement.

#### Exhibit IV

#### GPL Income Statement

#### Long-Term Liability Monetary Gain Credited to Asset

Income		\$600,000
Miscellaneous expense	\$600,000	
Depreciation (\$605,000-\$40,000x10%)	<u>56,500</u>	<u>656,500</u>
Loss from continuing operations		<u>\$ 56,500</u>
Purchasing power gain or loss		<u>-0-</u>

A gain or loss on current monetary assets and liabilities would be reflected in the income statement. In this example, there was no gain or loss on current items.

Another method suggested by the British in their Hyde guideline is to record net monetary losses, but recognize gains as an offset to the GPL adjustments for depreciation and cost of goods sold. Any net monetary gains in excess of the depreciation and cost of goods sold adjustments would not be recognized. Only the liabilities' proportion of the adjustments is used for an offset. For example, in Exhibit III, the net monetary liability balance of \$400,000 (assets

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<sup>47</sup>Gynther, Accounting for Price-Level Changes: Theory and Procedures, p. 153.

\$300,000 less liabilities of \$700,000) would be 73.5% of net monetary assets plus equity (\$400,000 plus \$144,500 = \$544,500) at the year end. The average equity and net liability balances for the year should be used. With a highly leveraged company, the GPL adjustments for depreciation and inventory would be eliminated by this offset.<sup>48</sup>

In dealing with long-term debt, Indiana Telephone only recognized gains when debt was liquidated and not refinanced. The company was following the cash basis in recognizing monetary gains and losses. Since current liabilities are usually paid in cash during the year and current non-cash assets are usually converted to cash, gains and losses were recognized on current assets and liabilities. The unrecognized gain on long-term debt was recorded in a capital account entitled, "Unrealized Effects of Price-Level Changes."<sup>49</sup>

If the financial statements are to be directed to all capital-holders (debt and equity), the effects of purchasing power changes on long-term monetary liabilities could be reported as a capital adjustment, via a capital-reserve account.<sup>50</sup>

Going one step further, all monetary gains and losses could be recorded as capital adjustments. A survey of 51 controllers

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<sup>48</sup>Kirkman, Accounting Under Inflationary Conditions, p. 68, 180, 181, and 182.

<sup>49</sup>James A. Largay III and John Leslie Livingstone, Accounting for Changing Prices (Santa Barbara: John Wiley & Sons, Inc., 1976), p. 68.

<sup>50</sup>Robert W. Scapens, Accounting for an Inflationary Environment (London: Macmillan, 1977), p. 39.

and 62 Chartered Financial Analysts (CFAs) indicated that 25.5% of the controllers and 29% of the CFAs agreed that monetary gains and losses should appear as an adjustment to stockholders' equity.<sup>51</sup> Of course, this policy would cause the effects of inflation to be split between the income statement and the statement of changes in stockholders' equity. The adjustments to expenses (e.g., increase depreciation) would be reflected in the income statement and monetary gains/losses in the stockholders' equity statement. In a The Woman CPA article, J. R. Pinkert and I. A. Posey stated that monetary gains should only be reflected to the extent that they cancel previous losses. The losses should be recorded in a stockholders' equity account.<sup>52</sup> This seems to be similar to recording inventory and investments at the lower of cost or market. Therefore, the balance sheet is conservatively stated with only losses recognized. Some theorists believe that gains cannot result from changes in the purchasing power of long-term debt.

Supporters of this viewpoint frequently suggest that gains can only arise as a result of increases in the value of assets purchased with the long-term capital. For example, in a house-mortgage transaction, it would probably be suggested that gains only arise because of property price increases and not because of falls in

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<sup>51</sup>Brenner and Benjamin, "Financial Reporting on Units of General Purchasing Power," p. 17.

<sup>52</sup>Pinkert and Posey, "Changes in Price-Levels," p. 19.

the purchasing power of the loan funds."<sup>53</sup>

Robert S. Kaplan suggests in an article in The Accounting Review that monetary gains on long-term debt should be computed on market value of the debt rather than book value.<sup>54</sup> Market value will deviate from book value when the rate of inflation is different than expected. If inflation increases, a purchaser of bonds will only be willing to pay less than face value for the bonds. As inflation increases, the market value of bonds decreases. For example, if a bond purchaser desires a 5% return, he will not pay face value for the \$10,000 bond if inflation is expected to be 10%. He will only pay \$9,091. One year later, on the maturity date, he would receive \$10,000 which has the same constant dollar value as the \$9,091 original payment. In addition, on the maturity date he would receive the annual interest payment of \$500 or \$455 stated at the beginning of year dollar value. For perpetual bonds there will be a substantial difference between market value and face value if the original expected inflation rate is considerably lower than the currently expected future inflation rate. For example, if a \$1,000 bond was issued when no inflation was expected, the \$50 annual

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<sup>53</sup>Kirkman, Accounting Under Inflationary Conditions, p. 66-67.

<sup>54</sup>Robert S. Kaplan, "Purchasing Power Gains on Debt: The Effect of Expected and Unexpected Inflation," The Accounting Review 52 (April, 1977): 370.

stated interest could be expected to provide a return on investment of 5%. If the expected inflation rate changes to 3%, the market value would no longer equal face value. The market value, considering the 3% inflation would be \$625. That is, 8% (5% desired return + 3% inflation) must be earned. Therefore, 8% of \$625 equals the \$50 interest payment. With the \$375 decrease in market value, the firm could retire the bond at \$625.

Long-term debt is similar to the shareholder's equity. R. S. Gynther contends that "long-term debt items form part of the permanent capital of the firm in the same way as do amounts contributed by shareholders."<sup>55</sup> Therefore, long-term debt should be treated on the same basis as stockholder's capital. See Exhibit V for a restatement of the Exhibit III balance sheet considering long-term liabilities as permanent capital. The only change in the income statement would be the deletion of the gain resulting from long-term debt.

These alternative methods seem to primarily address long-term debt. There seems to be a reluctance to record gains on long-term debt in the GPL income statement. This reluctance appears to be closely tied to many of the problems discussed earlier in this chapter.

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<sup>55</sup>Gynther, Accounting for Price-Level Changes: Theory and Procedures, p. 140.

Exhibit V

GPL Balance Sheet  
Long-term Debt as Permanent Capital

	Beginning Balance	Ending Balance	Increase (Decrease)
Monetary Current Assets	\$110,000	\$100,000	\$(10,000)
Monetary Noncurrent Assets	220,000	200,000	(20,000)
Plant Assets	605,000	544,500	(60,500)
Total Assets	<u>\$935,000</u>	<u>\$844,500</u>	<u>\$(90,500)</u>
Monetary Current Liabilities	\$330,000	\$300,000	\$(30,000)
Monetary Long-Term Liabilities	440,000	440,000	-0-
Equity	165,000	104,500	(60,500)
Total Liabilities and Equity	<u>\$935,000</u>	<u>\$844,500</u>	<u>\$(90,500)</u>

Next, pro forma financial statements will be presented to display the effects of GPL adjustments.

CHAPTER IV

PRO FORMA

In order to more clearly visualize the effects of GPL adjustments, pro forma financial statements will be presented for a steel company, a utility company and a bank. The statements will be for hypothetical firms.

If only the minimum requirements of Statement No. 33 are met, monetary gains and losses must be based on average-for-the-year constant dollars. An example of the calculations is demonstrated in Exhibit VI.

Exhibit VI

	<u>Nominal Dollars</u>	<u>Conversion Factor</u>	<u>Average 1980 Dollars</u>
Net monetary liabilities January 1, 1980	\$55,000	$\times \frac{220.9 \text{ (Avg. 1980)}}{212.5 \text{ (Dec, 1979)}}$	\$57,067
Increase in net monetary liabilities during the year	<u>6,000</u>	*	<u>6,000</u>
			\$63,067
Net monetary liabilities December 31, 1980	<u>\$61,000</u>	$\times \frac{220.9 \text{ (Avg. 1980)}}{243.5 \text{ (Dec, 1980)}}$	55,338
Purchasing power gain on net monetary items			C <u>\$ 7,729</u>

\*Assumed to be average 1980 dollars.

SOURCE: Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices," (Stamford, Conn.: FASB, 1979), p. 118, appendix E, paragraph 232.

When comprehensive financial statements are presented, monetary gains and losses may be based on end-of-year constant dollars. To facilitate the preparation of GPL adjusted balance sheets for the hypothetical firms, end-of-year dollars will be used and some items, in addition to the minimum requirements, will be restated.

Steel companies have large investments in plant and equipment, therefore, their GPL operating income is normally less than conventional historical based operating income. Also, the monetary liabilities of steel companies normally exceed their monetary assets. See Exhibit VII for the effects of GPL adjustments on the 1974 income of ten steel companies. The inflation for 1974 was 12%. The GPL operating incomes increased for all companies and they all had purchasing power gains on net monetary liabilities. The net income percentage reflected in Exhibit VII is calculated on income after including the monetary gain.<sup>56</sup>

The first financial statements presented will be for a steel company. See Exhibits VIII and X for the conventional statements and Exhibits IX and XI for the GPL statements. The GPL adjusted statements are prepared under the assumption that the inflation rate for the year was 10%. Current values are not reported.

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<sup>56</sup>James S. Winarchick and Robert E. Malcom, "General Purchasing Power Accounting," Management Accounting (July, 1976): 39-40.



## Exhibit VII

GPL Income of Steel Companies  
as Percentage of Conventional Income

Company	<u>Operating Income</u>	<u>Net Income</u>
Armco	82.0	114.0
Bethlehem	64.5	91.0
Inland	74.2	112.0
Jones & Laughlin	73.1	93.5
Kaiser	59.3	103.5
Lykes-Youngstown	67.0	120.0
National	66.5	98.7
Republic	71.4	92.3
U.S. Steel	63.0	79.5
Wheeling Pittsburg	75.3	101.5

SOURCE: James S. Winarchick and Robert E. Malcom, "General Purchasing Power Accounting," Management Accounting (July, 1976): 40.

The total assets increased only \$15,200,000 on the GPL balance sheet (Exhibit IX) in comparison to the \$30,200,000 increase on the historical balance sheet (Exhibit VIII), primarily due to the higher GPL accumulated depreciation charge and the decrease in value of accounts receivable. Also note the \$77,000,000 year 1 GPL balance sheet monetary assets versus the \$70,000,000 historical balance sheet monetary assets.

The GPL adjusted liabilities decreased \$800,000 in comparison to the \$14,000,000 increase in nominal value. The decrease in the GPL adjusted liabilities was mainly due to the decrease in the constant dollar value of long-term debt.

The GPL income and retained earnings statement

## Exhibit VIII

ABC Steel Corp. - Historical Balance Sheet  
(Thousands of dollars)

<u>Assets</u>	<u>Year 2</u>	<u>Year 1</u>	<u>Difference</u>
Current assets:			
* Cash	\$ 15,000	\$ 20,000	\$ (5,000)
* Marketable securities	6,000	6,000	-0-
* Accounts receivable	60,000	50,000	10,000
* Inventories	70,000	60,000	10,000
Other current assets	1,200	1,000	200
Total current assets	<u>\$152,200</u>	<u>\$137,000</u>	<u>\$ 15,200</u>
Other assets	<u>2,000</u>	<u>2,000</u>	<u>-0-</u>
Property, plant & equipment:			
Land	16,000	16,000	-0-
Bldgs. & improvements	90,000	90,000	-0-
Machinery & equipment	400,000	350,000	50,000
	<u>506,000</u>	<u>456,000</u>	<u>50,000</u>
Less: accumulated deprec.	270,000	235,000	35,000
Total prop., plant & equip.	<u>\$236,000</u>	<u>\$221,000</u>	<u>\$ 15,000</u>
	<u>\$390,200</u>	<u>\$360,000</u>	<u>\$ 30,200</u>
<u>Liabilities &amp; Stockholders' Equity</u>			
Current liabilities:			
* Current portion of lg-tm debt	\$ 6,000	\$ 6,000	\$ -0-
* Accounts payable	40,000	30,000	10,000
* Income taxes payable	7,000	6,000	1,000
* Accrued payroll & other empl. costs	35,000	27,000	8,000
Other current liabilities	5,000	5,000	-0-
Total current liabilities	<u>\$ 93,000</u>	<u>\$ 74,000</u>	<u>\$ 19,000</u>
*Deferred income taxes	14,000	13,000	1,000
Other non-current liabilities	3,000	3,000	-0-
*Long-term debt	60,000	66,000	(6,000)
Total liabilities	<u>\$170,000</u>	<u>\$156,000</u>	<u>\$ 14,000</u>
Stockholders' equity:			
Comm.stk., par value \$5; author. 20,000,000 shr; issd.4,000,000	20,000	20,000	-0-
Capital in excess of par value	50,000	50,000	-0-
Retained earnings	150,200	134,000	16,200
Total stockholders' equity	<u>\$220,200</u>	<u>\$204,000</u>	<u>\$ 16,200</u>
	<u>\$390,200</u>	<u>\$360,000</u>	<u>\$ 30,200</u>
*Monetary items			

## Exhibit IX

ABC Steel Corp. - GPL Balance Sheet  
(Thousands of dollars)

	<u>Year 2</u>	<u>Year 1</u>	<u>Difference</u>
<u>Assets</u>			
Current assets:			
* Cash	\$ 15,000	\$ 22,000	\$ (7,000)
Marketable securities	6,600	6,600	-0-
* Accounts receivable	60,000	55,000	5,000
Inventories	73,500	63,000	10,500
Other current assets	1,300	1,100	200
Total current assets	<u>\$156,400</u>	<u>\$147,700</u>	<u>\$ 8,700</u>
Other assets	<u>2,420</u>	<u>2,420</u>	<u>-0-</u>
Property, plant & equipment:			
Land	23,200	23,200	-0-
Bldgs. & improvements	126,000	126,000	-0-
Machinery and equipment	507,500	455,000	52,500
	<u>656,700</u>	<u>604,200</u>	<u>52,500</u>
Less: accumulated deprec.	351,000	305,000	46,000
Total prop., plant & equip.	<u>\$305,700</u>	<u>\$299,200</u>	<u>\$ 6,500</u>
	<u>\$464,520</u>	<u>\$449,320</u>	<u>\$ 15,200</u>
<u>Liabilities &amp; Stockholders' Equity</u>			
Current liabilities:			
* Current portion of lg-tm debt	\$ 6,000	\$ 6,600	\$ (600)
* Accounts payable	40,000	33,000	7,000
* Income taxes payable	7,000	6,600	400
* Accrued payroll & other empl. costs	35,000	29,700	5,300
Other current liabilities	5,500	5,500	-0-
Total current liabilities	<u>\$ 93,500</u>	<u>\$ 81,400</u>	<u>\$ 12,100</u>
*Deferred income taxes	14,000	14,300	(300)
Other non-current liabilities	3,300	3,300	-0-
*Long-term debt	60,000	72,600	(12,600)
Total liabilities	<u>\$170,800</u>	<u>\$171,600</u>	<u>\$ (800)</u>
Stockholders' equity:			
Comn.stk., par value 7.50; author. 20,000,000 shr; issd.4,000,000	30,000	30,000	-0-
Capital in excess of par value	75,000	75,000	-0-
Retained earnings	188,720	172,720	16,000
Total stockholders' equity	<u>\$293,720</u>	<u>\$277,720</u>	<u>\$ 16,000</u>
	<u>\$464,520</u>	<u>\$449,320</u>	<u>\$ 15,200</u>
*Monetary items			

## Exhibit X

ABC Steel Corporation  
 Historical Statement of Income and Retained Earnings - Year 2  
 (Thousands of dollars)

Net Sales		\$600,000
Costs and expense:		
Cost of goods sold	\$500,000	
Depreciation	35,000	
Selling, administrative & general	20,000	
Interest expense	7,500	
Total costs and expenses	562,500	562,500
Income before income taxes		37,500
Provision for income tax		11,300
Net income		26,200
Retained earnings, beginning of year		134,000
		160,200
Less: Dividends paid		10,000
Retained earnings, end of year		\$150,200

## Exhibit XI

ABC Steel Corporation  
 GPL Statement of Income and Retained Earnings - Year 2  
 (Thousands of dollars)

Net Sales		\$630,000
Costs and expenses:		
Cost of goods sold	\$525,000	
Depreciation	46,000	
Selling, administrative & general	20,000	
Interest expense	7,500	
Total costs and expenses	598,500	598,500
Income before income taxes		31,500
Provision for income tax		11,300
Net income		20,200
Purchasing power gain on net monetary liabilities		5,800
Net income after purchasing power gain		26,000
Retained earnings, beginning of year		172,720
		198,720
Less: Dividends paid		10,000
Retained earnings, end of year		\$188,720

## Exhibit XII

ABC Steel Corporation  
 GPL Purchasing Power Gain - Year 2  
 (Thousands of dollars)

Increases in net monetary assets resulting from:

Sales \$630,000

Decreases in net monetary assest resulting from:

Purchases of inventory	\$535,500	
General expenses	20,000	
Interest expense	7,500	
Tax expense	11,300	
Purchases of other assets	200	
Purchases of equipment	52,500	
Dividends	<u>10,000</u>	
		<u>637,000</u>
Increase (decrease) in net monetary assets		(7,000)
Beginning net monetary assets (liabilities)		<u>(85,800)</u>
		(92,800)
Ending net monetary assets (liabilities)		<u>(87,000)</u>
Purchasing power gain		<u>\$ 5,800</u>

(Exhibit XI) reflected a net income of \$20,200,000 in contrast to \$26,200,000 net income reflected on the historical income and retained earnings statement (Exhibit X). This difference was attributable to non-monetary items. The monetary gain of \$5,800,000 (Exhibit XII) was primarily due to the decreased constant dollar value of the long-term debt. If the steel company had sold common stock rather than incur long-term debt, there would have been no material monetary gain/loss. Also, the related interest expense would have been avoided.

Utilities are similar to steel companies in that capital assets are typically a large percentage of utilities'

assets. Therefore, the GPL adjusted statements reflect less net income than historical statements. A restatement of net income for 24 utilities for 1974 resulted in estimated net earnings which averaged 65.5% less than reported income due to sharply higher depreciation based on the constant dollar value of property. Also, utilities normally have significant long-term debt. Monetary gains, primarily due to the long-term debt, caused GPL adjusted earnings to average 225.5% of reported earnings for the 24 utilities. See Exhibit XIII for the estimated GPL adjusted earnings before monetary gains and after monetary gains. The utilities included in Exhibit XIII are the public utilities included in the Dow Jones and Standard and Poor's Utility Indexes.<sup>57</sup>

Again, assuming an inflation rate of 10%, conventional and GPL adjusted financial statements for a utility are presented in Exhibits XIV, XV, XVI and XVII. The purchasing power gain calculations are presented in Exhibit XVIII. The GPL balance sheet (Exhibit XV) reflects a decrease in long-term debt when more nominal dollars were borrowed than repaid according to the conventional balance sheet (Exhibit XIV). Furthermore, the GPL balance sheet discloses a \$37,965,000 decrease in plant use versus the \$46,000,000 increase indicated by the conventional balance sheet. The GPL adjusted net income, before monetary gain, (Exhibit XVII) is less than the conventional

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<sup>57</sup>Davidson, Stickney and Weil, Inflation Accounting, p. 160, 162, and 163.

## Exhibit XIII

<u>Company</u>	GPL income as percent- age of reported income before <u>monetary gain</u>	GPL income as percent- age of reported income after <u>monetary gain</u>
Allegheny Power System	57	227
American Electric Power	66	277
Cincinnati Gas and Electric	64	214
Cleveland Electric Illuminating	74	208
Columbia Gas System	48	200
Commonwealth Edison	60	229
Consolidated Edison	71	239
Consolidated Natural Gas	56	183
Consumer Power	37	330
Dayton Power and Light	65	226
Detroit Edison	61	286
Houston Light and Power	78	214
Indianapolis Power and Light	57	236
Niagara Mohawk Power	67	225
Northern Natural Gas	69	138
Northern States Power	66	238
Pacific Gas and Electric	68	197
Panhandle Eastern Pipe Line	49	176
Peoples Gas Company	64	176
Philadelphia Electric Company	73	228
Public Service Electric & Gas Company	69	228
Southern California Edison	77	187
Southern Company	61	299
United Gas Company	78	154

income. After the monetary gain of \$282,252,000, the GPL adjusted income is considerably higher than the conventional income. If the utility continues to borrow at least as much as the repayments, the new loans appear to be utilized for repayments. It is difficult to ascertain how the utility benefits (i.e., purchase power gains) when long-term debt is permanent.

## EXHIBIT XIV

XYZ UTILITY COMPANY - HISTORICAL BALANCE SHEET  
(THOUSANDS OF DOLLARS)

<u>ASSETS</u>	<u>YEAR 2</u>	<u>YEAR 1</u>	<u>DIFFERENCE</u>
UTILITY PLANT:			
ELECTRIC PLANT	\$4,316,000	\$4,118,000	\$ 198,000
GAS PLANT	910,000	910,000	-0-
COMMON PLANT	87,000	80,000	7,000
NUCLEAR FUEL	<u>22,000</u>	<u>22,000</u>	<u>-0-</u>
	5,335,000	5,130,000	205,000
LESS ACCUM. DEPRECIATION AND AMORTIZATION	<u>1,779,000</u>	<u>1,620,000</u>	<u>159,000</u>
NET UTILITY PLANT IN USE	3,556,000	3,510,000	46,000
CONSTRUCTION WORK IN PROGRESS	<u>1,550,000</u>	<u>1,350,000</u>	<u>200,000</u>
NET UTILITY PLANT	<u>5,106,000</u>	<u>4,860,000</u>	<u>246,000</u>
OTHER PROPERTY AND INVESTMENTS:			
NONUTILITY PROPERTY	6,000	6,000	-0-
LESS: ACCUMULATED DEPRECIATION	725	700	25
INVESTMENTS	<u>2,000</u>	<u>2,000</u>	<u>-0-</u>
TOTAL OTHER PROPERTY AND INVESTMENTS	<u>7,275</u>	<u>7,300</u>	<u>(25)</u>
CURRENT ASSETS:			
* CASH	6,000	14,000	(8,000)
* ACCOUNTS RECEIVABLE	248,709	256,700	(7,991)
FUEL	125,000	150,000	(25,000)
MATERIALS AND SUPPLIES	29,000	40,000	(11,000)
PREPAYMENTS	<u>6,000</u>	<u>7,000</u>	<u>(1,000)</u>
TOTAL CURRENT ASSETS	<u>414,709</u>	<u>457,700</u>	<u>(52,991)</u>
DEFERRED DEBITS	<u>68,000</u>	<u>65,000</u>	<u>3,000</u>
	<u>\$5,595,984</u>	<u>\$5,400,000</u>	<u>\$ 195,984</u>
<u>LIABILITIES</u>			
CAPITALIZATION:			
COMMON STOCK	\$1,000,000	\$1,000,000	\$ -0-
PREMIUM ON COMMON STOCK	24,000	24,000	-0-
RETAINED EARNINGS	<u>710,613</u>	<u>678,129</u>	<u>32,484</u>
	1,734,613	1,702,129	32,484
PREFERRED STOCK	500,000	500,000	-0-
* LONG-TERM DEBT	<u>2,239,871</u>	<u>2,039,871</u>	<u>200,000</u>
TOTAL CAPITALIZATION	<u>4,474,484</u>	<u>4,242,000</u>	<u>232,484</u>
CURRENT LIABILITIES:			
* LONG-TERM DEBT DUE WITHIN ONE YEAR	30,000	26,000	4,000
* ACCOUNTS PAYABLE	130,000	125,000	5,000
* TAXES PAYABLE	390,000	375,000	15,000
* INTEREST ACCRUED	45,500	40,100	5,400
* OTHER	<u>40,000</u>	<u>37,000</u>	<u>3,000</u>
TOTAL CURRENT LIABILITIES	<u>635,500</u>	<u>603,100</u>	<u>32,400</u>
DEFERRED CREDITS:			
* DEFERRED INCOME TAX	360,000	440,900	(80,900)
DEFERRED INVESTMENT TAX CREDITS	<u>126,000</u>	<u>114,000</u>	<u>12,000</u>
TOTAL DEFERRED CREDITS	<u>486,000</u>	<u>554,900</u>	<u>(68,900)</u>
	<u>\$5,595,984</u>	<u>\$5,400,000</u>	<u>\$ 195,984</u>

\*MONETARY ITEMS



## EXHIBIT XV

XYZ UTILITY COMPANY - GPL BALANCE SHEET  
(THOUSANDS OF DOLLARS)

<u>ASSETS</u>	<u>YEAR 2</u>	<u>YEAR 1</u>	<u>DIFFERENCE</u>
UTILITY PLANT:			
ELECTRIC PLANT	\$5,972,500	\$5,765,000	\$ 207,500
GAS PLANT	1,180,000	1,180,000	-0-
COMMON PLANT	122,500	115,000	7,500
NUCLEAR FUEL	25,000	25,000	-0-
	<u>7,300,000</u>	<u>7,085,000</u>	<u>215,000</u>
LESS: ACCUM. DEPREC. AND AMORTIZATION	<u>2,492,965</u>	<u>2,240,000</u>	<u>252,965</u>
NET UTILITY PLANT IN USE	4,807,035	4,845,000	(37,965)
CONSTRUCTION WORK IN PROCESS	<u>1,641,000</u>	<u>1,431,000</u>	<u>210,000</u>
NET UTILITY PLANT	<u>6,448,035</u>	<u>6,276,000</u>	<u>172,035</u>
OTHER PROPERTY AND INVESTMENTS:			
NONUTILITY PROPERTY	9,000	9,000	-0-
LESS: ACCUMULATED DEPRECIATION	1,035	1,000	35
INVESTMENTS	<u>3,160</u>	<u>3,160</u>	<u>-0-</u>
TOTAL OTHER PROPERTY AND INVESTMENTS	<u>11,125</u>	<u>11,160</u>	<u>(35)</u>
CURRENT ASSETS:			
* CASH	6,000	15,400	(9,400)
* ACCOUNTS RECEIVABLE	248,709	282,370	(33,661)
FUEL	129,000	160,000	(31,000)
MATERIALS AND SUPPLIES	33,000	45,000	(12,000)
PREPAYMENTS	<u>6,500</u>	<u>7,500</u>	<u>(1,000)</u>
	<u>423,209</u>	<u>510,270</u>	<u>(87,061)</u>
DEFERRED DEBITS	<u>74,200</u>	<u>71,000</u>	<u>3,200</u>
	<u>\$6,956,569</u>	<u>\$6,868,430</u>	<u>\$ 88,139</u>
<u>LIABILITIES</u>			
CAPITALIZATION:			
COMMON STOCK	\$1,650,000	\$1,650,000	\$ -0-
PREMIUM ON COMMON STOCK	39,600	39,600	-0-
RETAINED EARNINGS	<u>1,110,633</u>	<u>8,786,697</u>	<u>231,936</u>
	2,800,233	2,568,297	231,936
PREFERRED STOCK	780,000	780,000	-0-
* LONG-TERM DEBT	<u>2,239,871</u>	<u>2,243,858</u>	<u>(3,987)</u>
	<u>5,820,104</u>	<u>5,592,155</u>	<u>227,949</u>
CURRENT LIABILITIES:			
* LONG-TERM DEBT DUE WITHIN ONE YEAR	30,000	28,600	1,400
* ACCOUNTS PAYABLE	130,000	137,500	(7,500)
* TAXES PAYABLE	390,000	412,500	(22,500)
* INTEREST ACCRUED	45,500	44,110	1,390
* OTHER	<u>40,000</u>	<u>40,700</u>	<u>(700)</u>
TOTAL CURRENT LIABILITIES	<u>635,500</u>	<u>663,410</u>	<u>(27,910)</u>
DEFERRED CREDITS:			
* DEFERRED INCOME TAX	360,000	484,900	(124,900)
DEFERRED INVESTMENT TAX CREDIT	<u>140,965</u>	<u>127,965</u>	<u>13,000</u>
TOTAL DEFERRED CREDITS	<u>500,965</u>	<u>612,865</u>	<u>(111,900)</u>
	<u>\$6,956,569</u>	<u>\$6,868,430</u>	<u>\$ 88,139</u>
*MONETARY ITEMS			

## Exhibit XVI

XYZ Utility Company  
 Historical Statement of Income and Retained Earnings  
 Year 2  
 (Thousands of dollars)

Operating Revenues		\$2,400,000
Operating expense:		
Gas and fuel	\$1,000,000	
Maintenance	140,000	
Depreciation	184,000	
Taxes	480,000	
Other operation expense	256,000	
		2,060,000
Operating income		340,000
Other income		52,800
Income before interest		392,800
Interest charges		150,000
Net income		242,800
Less: dividends on preferred stock		35,500
Earnings available for common stock		207,300
Less: dividends on common stock		174,816
Increase in retained earnings		32,484
Retained earnings, beginning of year		678,129
Retained earnings, end of year		\$ 710,613

## Exhibit XVII

XYZ Utility Company  
 GPL Statement of Income and Retained Earnings  
 Year 2  
 (Thousands of dollars)

Operating Revenue		\$2,500,000
Operating expense:		
Gas and fuel	\$1,067,000	
Maintenance	147,000	
Depreciation	253,000	
Taxes	500,000	
Other operating expense	<u>270,000</u>	<u>2,237,000</u>
		263,000
Other income		<u>55,000</u>
Income before interest		318,000
Interest charges		<u>158,000</u>
Net income		160,000
Purchasing power gain on net monetary liabilities		<u>282,252</u>
Net income after purchasing power gain		442,252
Less: dividends on preferred stock		<u>35,500</u>
Earnings available for common stock		406,752
Less: dividends on common stock		<u>174,816</u>
Increase in retained earnings		231,936
Retained earnings, beginning of year		878,697
Retained earnings, end of year		<u><u>\$1,110,633</u></u>

## Exhibit XVIII

XYZ Utility Company  
 GPL Purchasing Power Gain - Year 2  
 (Thousands of dollars)

Increase in net monetary assets resulting from:

Revenue	\$2,500,000	
Other income	55,000	
Materials and supplies inventory	12,000	
Prepayments	1,000	
Deferred credits	13,000	
Total increases	\$2,581,000	\$2,581,000

Decreases in net monetary assets resulting from:

Fuel purchases	1,036,000	
Maintenance expense	147,000	
Tax expense	500,000	
Other expense	270,000	
Interest expense	158,000	
Investment in utility	215,000	
Construction in progress	210,000	
Deferred debits	3,200	
Dividends	210,316	
	2,749,516	2,749,516
Increase (decrease) in net monetary assets		(168,516)
Beginning net monetary assets (liabilities)		(3,094,398)
		(3,262,914)
Ending net monetary assets (liabilities)		(2,980,662)
Purchasing power gain		\$ 282,252

Next, GPL adjusted statements for banks will be discussed. Bank GPL adjusted statements are different than steel companies and utilities principally because property, plant, and equipment are usually immaterial in the banking industry. Furthermore, the monetary assets of banks may exceed the monetary liabilities. Regarding depreciation, FASB Statement No. 33 provides that the provisions of the statement need not be applied to immaterial items.<sup>58</sup> The

<sup>58</sup> Statement of Financial Accounting Standards Number 33, paragraph 170, p. 82.

## Exhibit XIX

Z Bank  
 Historical Balance Sheet  
 (Thousands of dollars)

<u>Assets</u>	<u>Year 2</u>	<u>Year 1</u>	<u>Difference</u>
*Cash	\$ 9,176	\$ 8,800	376
Investments	1,000	1,000	-0-
*Federal funds sold	2,000	2,000	-0-
*Net loans	25,000	23,000	2,000
Bank premises and equipment	130	140	(10)
Other assets	90	90	-0-
	<u>\$ 37,396</u>	<u>\$ 35,030</u>	<u>\$ 2,366</u>
 <u>Liabilities and Stockholders' Equity</u>			
Liabilities:			
* Demand deposits	\$ 18,000	\$ 17,000	\$ 1,000
* Time deposits	12,000	11,000	1,000
* Accrued expenses and other	1,600	1,500	100
Total liabilities	<u>31,600</u>	<u>29,500</u>	<u>2,100</u>
 Stockholders' equity:			
Common stock	100	100	-0-
Capital surplus	400	400	-0-
Retained earnings	5,296	5,030	266
Total stockholders' equity	<u>5,796</u>	<u>5,530</u>	<u>266</u>
	<u>\$ 37,396</u>	<u>\$ 35,030</u>	<u>\$ 2,366</u>
 *Monetary items			

excess of monetary assets over monetary liabilities will result in losses of purchasing power during inflation. Lawrence Minard, when referring to banks wrote that "they are almost certain to report huge net monetary assets, and so huge "losses".<sup>59</sup>

<sup>59</sup> Lawrence Minard, "Is the Cure Worse than the Disease?" Forbes 123 (April 2, 1979): 100.

## Exhibit XX

Z Bank  
 GPL Balance Sheet  
 (Thousands of dollars)

	<u>Year 2</u>	<u>Year 1</u>	<u>Difference</u>
<u>Assets</u>			
*Cash	\$ 9,176	\$ 9,680	\$ (504)
Investments	1,400	1,400	-0-
*Federal funds sold	2,000	2,200	(200)
*Net loans	25,000	25,300	(300)
Bank premises and equipment	209	220	(11)
Other assets	100	100	-0-
	<u>\$ 37,885</u>	<u>\$ 38,900</u>	<u>\$ (1,015)</u>
<u>Liabilities and Stockholders' Equity</u>			
Liabilities:			
*Demand deposits	18,000	18,700	(700)
*Time deposits	12,000	12,100	(100)
*Accrued expenses and other	1,600	1,650	(50)
Total liabilities	<u>\$ 31,600</u>	<u>\$ 32,450</u>	<u>\$ (850)</u>
Stockholders' equity:			
Common stock	130	130	-0-
Capital surplus	520	520	-0-
Retained earnings	5,635	5,800	(165)
Total stockholders' equity	<u>6,285</u>	<u>6,450</u>	<u>(165)</u>
	<u>\$ 37,885</u>	<u>\$ 38,900</u>	<u>\$ (1,015)</u>
*Monetary items			

See Exhibits XIX, XX, XXI, and XXII for an example of historical and GPL adjusted bank financial statements. For the purchasing power gain calculations see Exhibit XXIII. Loans and deposits increased on the conventional balance sheet (Exhibit XIX), but decreased on the GPL balance sheet (Exhibit XX). The net income stated in nominal dollars was \$348,000 (Exhibit XXI) in contrast to the constant dollar value \$78,000 net loss after purchasing power loss. The operating

## Exhibit XXI

Z Bank  
 Historical Statement of Income and Retained Earnings - Year 2  
 (Thousands of dollars)

Operating income:		
Interest on loans	\$ 1,653	
Investment income	105	
Interest on federal funds sold	207	
Other interest	435	
Total operating income	<u>          </u>	<u>\$ 2,400</u>
Operating expenses:		
Interest expense	900	
Salaries and other expense	975	
Depreciation	10	
Total operating expense	<u>          </u>	<u>1,885</u>
Income before income tax		515
Income tax		<u>167</u>
Net income		348
Retained earnings, beginning of year		<u>5,030</u>
		5,378
Less: Dividends paid		<u>82</u>
Retained earnings, end of year		<u><u>\$ 5,296</u></u>

income seems to be more important to banks than the income after purchasing power loss, because the main concern for banks is the collection of loans and earning of interest income in excess of the cost of funds.

The last chapter will review the problems of monetary gains and losses in addition to discussing the alternate methods for reporting monetary assets and liabilities. Furthermore, a recommended method for recording monetary assets and liabilities will be presented.

## Exhibit XXII

Z Bank  
 GPL Statement of Income and Retained Earnings - Year 2  
 (Thousands of dollars)

Operating income:		
Interest on loans	\$ 1,736	
Investment income	110	
Interest on federal funds sold	217	
Other interest	457	
	<u>          </u>	\$ 2,520
Operating expenses:		
Interest expense	945	
Salaries and other expense	1,024	
Depreciation	11	
	<u>          </u>	1,980
Income before income tax		<u>540</u>
Income tax		175
Net income		<u>365</u>
Purchasing power loss		<u>443</u>
Net loss after purchasing power loss		78
Retained earnings beginning of year		<u>5,800</u>
		5,722
Less: Dividends		89
Retained earnings, end of year		<u><u>\$ 5,635</u></u>

## Exhibit XXIII

Z Bank  
 GPL Purchasing Power Loss - Year 2  
 (Thousands of dollars)

Increases in net monetary assets resulting from:		
Net GPL income plus depreciation		\$ 376
Decreases in net monetary assets resulting from:		
Dividends		87
Increase in net monetary assets		<u>289</u>
Beginning net monetary assets		4,730
		<u>5,019</u>
Ending net monetary assets		4,576
Purchasing power loss		<u><u>\$ 443</u></u>



## CHAPTER V

### SUMMARY AND CONCLUSION

There are several problems in reflecting monetary gains and losses in financial reports. The monetary gains and losses must be presented so the unsophisticated reader can understand the significance of the gains and losses. The net income after monetary gains and losses should be meaningful. The net income must not be misleading. For example, the reader should not be led to believe cash is available for dividends as a result of monetary gains. Regulatory commissions should not be led to expect regulated companies to pay expenses out of monetary gains. The problems of when cash is available is similar to the realization problem. When, if ever, are monetary gains realized?

Monetary gains are normally a result of debt. Monetary gains seem to encourage debt. The monetary gains and related interest expense should be presented in such a manner that the reader can easily see the significance of the debt and cost of debt.

In an attempt to solve the problems of monetary gains and losses, several alternative methods for recording them have been suggested. According to FASB Statement No.33,

monetary gains and losses should be presented as supplementary information as changes in the consumers price index occur. Some theorists have suggested that monetary gains should only be recognized when they are realized. Others believe the gain or loss should be spread over the life of the related asset or debt. In accordance with a British method, net monetary losses are reflected as losses, but gains are treated as an offset to the GPL adjustments for depreciation and cost of goods sold. Indiana Telephone only recognized gains when debt was liquidated and not refinanced. Monetary gains and losses could be treated as capital adjustments. Gains could be recognized only to the extent that they cancel previous losses. It has been suggested that gain on long-term debt be calculated on the market value of debt.

I believe the preferable method for recognizing and recording monetary gains and losses is to treat permanent monetary items as capital items. The items would be presented at original nominal value plus or minus the index adjustment. For example, a permanent liability incurred at the beginning of a year would be reflected at 1.1 times the original amount at the end of the year assuming 10% inflation. A permanent item should be an asset or liability not expected to be liquidated in the foreseeable future. A change, such as refinancing debt, would not be considered liquidation. Permanent items may include only long-term debt for most companies and probably loans and deposits for banks. When

the monetary item is finally liquidated, the monetary gain or loss would be recognized.

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