

INFLATION ACCOUNTING: HOW JAPAN AND EUROPE CARS MARKET CARS'S PRICE MADE

Nanang Shonhadji

STIE Perbanas

nanang@perbanas.ac.id

Abstract

Indonesia as one of the developing Southeast Asian region which has the largest population of the region and is strongly influenced by the use of cars as a means of transportation. Small, medium, large and multinational companies each year always increase the number of cars as a means of transportation, as well as the consumption level of the community of car ownership in their activities. The dominance of Japanese and European car market in Indonesia possess unique characteristics of accounting that may be affected by foreign currency exchange rates, motor vehicle taxes, inflation accounting, or other causes which will be the object of observation that would like to note in this study. Exploration study on Japanese and European car market in some of car dealerships in Surabaya and Jakarta will be conducted to determine the price movement of new cars and used cars in big cities and then find out the level of car price inflation. How different is the historical cost and general price levels and purchasing power accounting is another explanation of the results of this research.

Keywords: IFRS, accounting inflation, historical cost, general price and purchasing power accounting.

Background

The number of Japanese and European car usage in Indonesia is currently experiencing an increase. Transportation equipment selection is not limited to the types of cars but also state that the car maker. As we know the dominance of Japanese cars made in Indonesia is very large compared with cars made from other countries. Toyota, Mitshubishi, Daihatsu and Isuzu is a Japanese automobile manufacturer that controls the car market in Indonesia, while Mercedes Benz, BMW, VW, Chevrolet, Jaguar and Peugeot is a manufacturer of cars from European countries which also dominates the European car market in Indonesia. Factors car prices and convenience as evidenced by the completeness of the car's interior and instrument utility vehicle into one of the factors that determine the level of consumer preferences for the selection of cars.

Prices of new cars for the Japanese production car with a car prouksi Europe in the same type is not really much different, but the selling price of a used car japan still better production and stable compared with European countries used car production. In the case when viewed overall condition of a used car europe car overall is better, This can be seen from the exterior and interior of the used car, Speedo meter that informs the use of an automobile mileage also be an indicator. European cars generally have the mileage that is the use of fewer or shorter than the Japanese

cars. Europe car care will also be looking at a used car optimalissi performance was compared with Japanese cars, but why the difference between the selling price of new cars with used car production European country so great. This will answer the uniqueness Penelitian fenoman that may only happen in Indonesia, especially developing countries where the depreciation factor affecting book value be difficult to dijadikan indicator in such cases, therefore, this study uses the inflation IFRS accounting approach to explain How different is the historical cost and general price levels and purchasing power accounting into Japanese and European cars prices made.

Confederate asset price stabilization policies appear to have increased the velocity of circulation and counterproductively channeled inflationary pressures into other areas of the economy. Three successive monetary reforms encouraged holders of Treasury notes to exchange these notes for bonds by imposing deadlines on their convertibility. We show that Confederate funding acts aimed at precipitating the conversion of currency into bonds did temporarily suppress currency depreciation. These acts also triggered upsurges in commodity prices, however, because note holders rushed to spend the currency before their exchange rights were reduced.

Theoritical Framework

Inflation Accounting

Inflation accounting is a term describing a range of accounting systems designed to correct problems arising from historical cost accounting in the presence of inflation. Inflation accounting is used in countries experiencing high inflation or hyperinflation. For example, in countries experi encing hyperinflation the International Accounting Standards Board requires corporate financial statements to be adjusted for changes in purchasing power using a price index.

Purchasing power

Purchasing power is the number of goods or services that can be purchased with a unit of currency. Currency can be either a commodity money, like gold or silver, or fiat currency like US dollars. Purchasing power can be computed by price index, its value in the base year is usually normalized to a value of 100. The purchasing power of a unit of currency, say a dollar, in a given year, expressed in dollars of the base year, is $100/P$, where P is the price index in that year. So, by definition the purchasing power of a dollar decreases as the price level rises. The purchasing power in today's money of an amount C of money, t years into the future, can be computed with the formula for the present value:

$$C_t = C (1 + i)^{-t} = C/(1+i)^t$$

where in this case i is an assumed future annual inflation rate

Purchasing Power Parity (PPP)

Purchasing power parity (PPP) is a theory of long -term equilibrium exchange rates based on relative price levels of two countries. PPP exchange rate (the " real exchange rate ") fluctuations are mostly due to different rates of inflation between

the two economies. Aside from this volatility, consistent deviations of the market and PPP exchange rates are observed, for example (market exchange rate) prices of non-traded goods and services are usually lower where incomes are lower.

Constant Purchasing Power Accounting

Constant purchasing power accounting (CPPA) as defined in International Accounting Standard IAS 29 Financial Reporting in Hyperinflationary Economies is the International Accounting Standards Board's inflation accounting model required to be implemented only during hyperinflation which the IASB describes as an exceptional circumstance.

Inflation accounting model

They ignore CPPA's substantial benefits, for example, automatically maintaining the real value of banks' and companies' equity constant instead of destroying it in all entities that at least break even during low inflation when accountants choose to inflation-adjust only constant real value non-monetary items by means of the CPI thus maintaining instead of continuously destroying their real values at a rate equal to the annual rate of inflation while they value variable items in terms of IFRS or GAAP. Monetary items cannot be inflation-adjusted or updated and accountants value them at their original nominal HCA values during the actual accounting period under all accounting and economic models.

Certain income statement constant real value non-monetary items, most notably salaries, wages, rentals, etc. are inflation-adjusted by means of the CPI, that is, valued or measured in units of constant purchasing power during low inflation, in most economies implementing the traditional HCA model.

1970-style CPPA was a failed inflation accounting model

South African Institute of Chartered Accountants : "Yes, this does have conceptual appeal and was experimented with in the UK and US in the 1970s, when inflation was high. Yet the markets brushed aside the inflation-adjusted figures because: The capital markets are acutely aware of the extent of inflation and are perfectly capable of allowing for this in determining the value of shares and businesses are affected by the specific price changes of the products with which they are dealing; changes that may bear little relationship to a general price index like the CPI. "It therefore made little practical sense to introduce CPI-based adjustments. Indeed, when the CPI-based approach was included in supplementary accounts, business generally objected on the grounds that the adjusted numbers did not reflect the impact of specific inflation. "Eventually, with inflation abating in the UK and US, and accountants engaging in increasingly technical dead-end debates, the use of CPI-adjusted numbers was abandoned. "Self-evidently, inflation adjustments that apply accounting standard IAS 29 are essential in hyperinflationary environments, in which historic numbers are meaningless.

Historical cost basis in Financial Statements

Fair value accounting (also called replacement cost accounting or current cost accounting) was widely used in the 19th and early 20th centuries, but historical cost accounting became more widespread after values overstated during the 1920s were reversed during the Great Depression of the 1930s. Most principles of historical cost accounting were developed after the Wall Street Crash of 1929, including the presumption of a stable currency.

Misleading reporting under historical cost accounting

"In most countries, primary financial statements are prepared on the historical cost basis of accounting without regard either to changes in the general level of prices or to increases in specific prices of assets held, except to the extent that property, plant and equipment and investments may be revalued." Ignoring general price level changes in financial reporting creates distortions in financial statements such as reported profits may exceed the earnings that could be distributed to shareholders without impairing the company's ongoing operations the asset values for inventory, equipment and plant do not reflect their economic value to the business future earnings are not easily projected from historical earnings the impact of price changes on monetary assets and liabilities is not clear future capital needs are difficult to forecast and may lead to increased leverage, which increases the business's risk when real economic performance is distorted, these distortions lead to social and political consequences that damage businesses (examples: poor tax policies and public misconceptions regarding corporate behavior)

History of inflation accounting

Accountants in the United Kingdom and the United States have discussed the effect of inflation on financial statements since the early 1900s, beginning with index number theory and purchasing power. Irving Fisher's 1911 book *The Purchasing Power of Money* was used as a source by Henry W. Sweeney in his 1936 book *Stabilized Accounting*, which was about Constant Purchasing Power Accounting. This model by Sweeney was used by The American Institute of Certified Public Accountants for their 1963 research study (ARS6) *Reporting the Financial Effects of Price-Level Changes*, and later used by the Accounting Principles Board (USA), the Financial Standards Board (USA), and the Accounting Standards Steering Committee (UK). Sweeney advocated using a price index that covers everything in the gross national product. In March 1979, the Financial Accounting Standards Board (FASB) wrote *Constant Dollar Accounting*, which advocated using the Consumer Price Index for All Urban Consumers (CPI-U) to adjust accounts because it is calculated every month.

During the Great Depression, some corporations restated their financial statements to reflect inflation. At times during the past 50 years standard-setting organizations have encouraged companies to supplement cost-based financial statements with price-level adjusted statements. During a period of high inflation in the 1970s, the FASB was reviewing a draft proposal for price-level adjusted statements when the Securities and Exchange Commission (SEC) issued ASR 190, which required approximately 1,000 of the largest US corporations to provide supplemental information based on replacement cost. The FASB withdrew the draft proposal.

Inflation accounting models

Inflation accounting is not fair value accounting. Inflation accounting, also called price level accounting, is similar to converting financial statements into another currency using an exchange rate. Under some (not all) inflation accounting models, historical costs are converted to price-level adjusted costs using general or specific price indexes.

Research Method

Ethnography is a research method that uses direct observation of human activities in social and cultural context of everyday life. Ethnography trying to find out what are the forces that make people do things *James P. Spradley* (1979: 5) and Amri Marzali in introduction *James P. Spradley, Metode Etnografi*, Jogjakarta: Published PT Tiara Wacana, 1997, page. xvi. 9. Op. cit., page. 12. For that reason, this ethnographic method starts to peep the business world to help express the deepest desires of consumers who often can not be obtained from other methods of consumer research such as surveys or focus group. Ethnography gives businesses a tool to look into the development of a culture that is in now, or lifestyle factors that influence consumer decisions in their interaction with products.

Related Terms:

constant dollar accounting method of measuring financial statement items in dollars of the same (constant) purchasing power. Historical cost is restated in units of constant purchasing power as follows:

$$\text{Historical Cost} \quad \times \quad \frac{\text{Average CPI for Current Year}}{\text{CPI at Time of Acquisition}}$$

Restating all accounts in constant dollars provides greater comparability among years because all assets appear in the same current year average dollars regardless of when the asset was bought. Constant dollar accounting also aids comparability among competing companies in the same industry because each company converts its accounts to the same Consumer Price Index (CPI)dollars.

Findings and Implication

The development and movement of Japanese-made car prices and the incoming European outlets Indonesia today is very competitive this because the Indonesian market with a population of more than 250 million people into a very lucrative market for automotive manufacturers from Japan and Europe. Here are some cars made in Japan and Europe with the highest sales levels throughout the observation period

Table 1 Average Revaluated Base on Fair Market Value

	Average Revaluated Base on Fair Market Value					
Japanes Cars	2005	2006	2007	2008	2009	2010
Toyota	5%	5%	5%	5%	5%	5%
Daihatsu	7.5%	7.5%	7.5%	7.5%	5%	5%
Suzuki	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Nisan	7.5%	5%	7.5%	5%	5%	5%
Honda	5%	5%	7%	8%	8%	7%
Europe Cars	2005	2006	2007	2008	2009	2010
Mercedez Benz	10%	12%	13.3%	17%	20%	22.1%
BMW	13%	14.2%	15%	20%	22%	24%
Ford	15%	15%	18%	20%	22%	22%
Chevrolet	15%	15%	20%	20%	20%	22%

Based on these tables can be seen that the rate of decline in the price of Japanese cars per year for an average of 5-7 million (about 5%) with the terms and conditions of use of the car in normal circumstances, while European cars per year price decline on average 15-20 million (about 17% - 20%) on the condition and use car in normal circumstances. This becomes interesting findings in this study because it was the level of price reduction per year for each of Japanese and European automobile output was more influenced by the factor of market forces and consumer purchasing power. Information Market forces in this study was obtained from interviews with new car dealers and used car who said that, Indonesia's automotive consumers prefer a compact car with the utility but the price is affordable, in addition, consumers also want a car that requires low maintenance cost or was not too expensive, in part consumers also want a car that after-sales were still high or strong. The results of this study also explains that the strength of this market was also influenced by the inflation that occurred in Indonesia during the period of 2010 the average inflation rate of 1.6% (BPS, 2010) and until the month of July 2010 contributed to the inflation rate according to the group's largest expenditure is on transport and financial sectors where the automotive industry to be part of that sector.

Implication of Inflation accounting

Inflation accounting is a term describing a range of accounting systems designed to correct problems arising from historical cost accounting in the presence of inflation. Analyze error made in each inflation accounting models that all of the cars (both europe and japan cars) were explained by figure 2.

Figure 2. Error in Inflation accounting Models

No	Accounting Model	Timing error		Measuring- Unit Error	Interpretation		Relevance
		Operating Profit	Holding Gains		NOD	COG	
					(Number of dollars)	(Command of Goods)	
1	Historical-cost accounting	Yes	Yes	Yes	Yes	No	No
2	Replacement-cost	Yes	Omitted	Yes	Yes	Yes	Yes
					Income statement	Aset	Aset
					Liability and income statement	Monetary aset and liability	
4	General price-level-adjusted historical cost accounting	Yes	Yes	Omitted	Yes	Yes	Yes
5	General Price-level-adjusted replacement-cost accounting	Yes	Omitted	Omitted	Omitted	Yes	Yes
6	General Price-level-adjusted net-realizable-value accounting	Omitted	Omitted	Omitted	Omitted	Yes	Yes

Reference.

Brown, W. O. Jr., and R. C. K. Burdekin. ``Turning Points in the U.S. Civil War: A British Perspective." *Journal of Economic History*, 60(1), 2000.

Burdekin, R. C. K., and M. D. Weidenmier. ``Inflation Is Always and Everywhere a Monetary Phenomenon: Richmond vs. Houston in 1864." *American Economic Review*, 91(5), 2001.

IFRS in IAS 29 and IFRS 1

James P. Spradley (1979: 5) and Amri Marzali in introduction James P. Spradley, *Etnografi method*, Jogjakarta: Published PT Tiara Wacana, 1997, page. xvi. 9. Op. cit., page. 12

Patinkin, D. *Money, Interest, and Prices: An Integration of Monetary and Value Theory*, 2nd ed. New York: Harper & Row,