

Are IASB's Qualitative Characteristics Reflected in IFRSs? IAS 29 as a Case Study.

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ABSTRACT

The study investigates the ability of IAS 29 to reflect IASB's qualitative characteristics. A critical and evaluative approach is adopted to test three hypotheses. First, IASB requires high comparable information in financial statements and other financial reports. We find that IAS 29 leads to an inadequate comparability based on performance. As a harmonizing international body, IASB, through IAS 29, does not render any valid comparison which is supposed to be the most fundamental mission of IASB. Second, IAS 29 is purposively constructed to provide relevant information for economic decisions taken by shareholders. We find that IASB is ideologically biased. Finally, IAS 29 does not achieve faithful representation when historical cost information is restated through a general price index. We find that the official price index is far from being representative of the prices of goods and services and representative of the inflation rate. The measured consumer price index during the period of large price shock was biased. The results of this paper indicate that IAS29 does not reflect the qualitative characteristics espoused by the various pronouncements by IASB.

JEL CLASSIFICATION & KEYWORDS

■ M41 ■ IASB ■ IFRSS ■ IAS 29 ■ QUALITATIVE CHARACTERISTICS ■ COMPARABILITY ■ RELEVANCE ■ FAITHFUL REPRESENTATION ■ CPI ■

INTRODUCTION

Caught between the rock and the hard place of the necessity of being sincere in living up to its promises of providing solutions to emerging problems at the international level and embezzled for being left with no creativity to be proud of due to accounting standards issued in the U.K. and U.S.¹ ISAC/IASB (hereafter IASB only) issued the International Accounting Standard 29, Financial Reporting in Hyperinflationary Economies (hereafter IAS 29) to tackle problems caused by a unique economic condition of a hyperinflation. IAS 29, and indeed, all IFRSs must possess the IASB's espoused qualitative characteristics. IASB claims that it issues its IFRSs with a well-formulated and well-integrated conceptual framework. In the 1989 Framework for the Preparation and

Presentation of Financial Statements (hereafter IASB's Framework) IASB states that "this framework sets the concepts that *underlie* –emphasis is added- the preparation and presentation of financial statements for external users" (International Accounting Standards Board, 2006, P. 33). In the *Preface to International Financial Reporting Standards* of 2002, IASB clearly espouses that "IFRSs are based on the Framework, which addresses the concepts underlying the information presented in general financial statements. The objective of the Framework is to facilitate the consistent and the logical formulation of IFRSs" (Alfredson et al., 2007). In the *Exposure Draft of an Improved Conceptual Framework for Financial Reporting* issued in May 2008, the importance of qualitative characteristics is overemphasized since "Fundamental qualitative characteristics distinguish useful financial reporting information from information that is not useful or is misleading. To be useful, the financial information *must* –emphasis is added- possess the...fundamental qualitative characteristics". (International Accounting Standards Board, 2008, P.13). In this study, we will concentrate on comparability, relevance and faithful representation as three important and most fundamental qualitative characteristics. First, De Franco et al. (2009) notice that firms are considered to have comparable corporate reporting if these firms produce similar financial statements. It becomes less cost, more useful and easier for the users of financial statements if the numbers included in the financial reports are comparable. Aggarwal et al. (2005) and Leuz and Scharand (2009) find that more comparable reporting across firms from different countries facilitate cross-border investment and integrate the capital markets. Second, to be useful, information must be relevant for users to be used in their decision making. Information that is useful for some individuals and for some purposes may not be so for other individuals and for other purposes (Henderson, 1971; Farger, 1973). The definition of relevance and usefulness require the identification of the implied user, and the reasons why these reports are prepared, as well as the provision of this information on time (Gynther, 1968). Finally, in its conceptual framework, IASB states that faithful representation means the information is reliable and free from error and bias. This means that the information should be accurate, unbiased and neutral.

In order to promote the wide applicability of its IFRSs at the international arena, IASB claims that IFRSs are based on well-organized, well-formulated and internally consistent conceptual framework. At the heart of this conceptual framework is a group of qualitative characteristics which are supposed to represent the distinguishing criteria for the quality of the information resulting from the implementation of IFRSs. An absence of these qualitative characteristics turns financial statements not to represent information. The objective of this study is to investigate the ability of IAS 29 to reflect IASB's qualitative characteristics. A critical and

¹ In the UK, the Sandilands Report opted for current cost accounting (Sandilands Report, 1975). The Sandilands Report was made more formal at the professional level when it was followed by the Statement of Standard Accounting Practice (SSAP) 16 issued in 1980 by the Accounting Standard Committee (ASC) (Accounting Standard Committee, 1980). Due to changes in the level of inflation and after tremendous pressure exerted on ASC by its constituency, SSAP 16 was withdrawn in April 1988 (Pong and Whittington, 1996). In the U.S., SFAS 33, SFAS 82, and SFAS 89 were issued. Under pressure of the double-digit inflation rates, SFAS 33 was issued requiring adjustments with a hybrid approach to accounting for inflation effects on only two items: cost of sales and depreciation. Both of these two items are required to be reported according to constant purchasing power and specific price basis (Financial Accounting Standards Board, 1986, P. 6). SFAS 82 represents an amendment of SFAS 33. SFAS 89 represents a comprehensive approach to accounting for inflation requiring the use of general purchasing power method based on the Consumer Price Index for All Urban Consumers (CPI-U).

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evaluative approach is adopted to test three hypotheses. First, IASB requires high comparable information in financial statements and other financial reports. We find that IAS 29 leads to an inadequate comparability based on performance. As a harmonizing international body, IASB, through IAS 29, does not render any valid comparison which is supposed to be the most fundamental mission of IASB. We think that the major reason for non-comparability results is that IAS 29 chooses to require companies that are located only in hyperinflation countries to restate their financial statements based on a general price index. IASB does not offer any logic for this inadequately calculated choice. Second, IAS 29 is purposively constructed to provide relevant information for economic decisions taken by shareholders. We find that IASB is ideologically biased. This bias has its roots in the Anglo-American accounting. Accounting in the U.K. and U.S. are biased towards satisfying the information needs of investors (capitalists). If the implementation of the IAS 29 is restricted to subsidiaries located in hyperinflationary countries, then their shareholders' general purchasing power may not be maintained because these shareholders may live in different countries with different prices of consumers' goods and services. Capital is maintained according to a general price index in the host country that has nothing to do with the prices of consumers' goods and services in shareholders' home countries. Relevance to shareholders in the home country is most likely lost, if it ever exists with the IAS 29. If shareholders live in different countries, it is difficult to imagine how their spending capacity is maintained. Finally, IAS 29 does not achieve faithful representation when historical cost information is restated through a general price index. We find that the official price index is far from being representative of the prices of goods and services and representative of the inflation rate. The measured consumer price index during the period of large price shock was biased. General denotes its mission to represent/reflect the status of all prices of all goods and services in a given country at a specific point of time. Calculating a general price index for all prices of all goods and services is absolutely impossible in any country in the world. Therefore, choosing anything that is less than "all" decreases the generality of representation. The results of this paper indicate that IAS29 does not reflect the qualitative characteristics espoused by the various pronouncements by IASB.

We contribute to the literature by examining whether the IASB's qualitative characteristics are reflected in IFRSS. We limit our study to IAS 29 because it is the only accounting standard that requires unquestionable faith in an index prepared by non-accountants, that is, a general price index. Then, it is very imperative to assume that the conversion of historical cost-based amounts, through the use of a general price index, has the magic of ensuring the achievement of the IASB's qualitative characteristics.

IASB's qualitative characteristics

In the IASB's *Framework*, four qualitative characteristics are suggested by IASB that are assumed to ensure usefulness of the information provided in the financial statements (International Accounting Standards Board, 2006, P. 38). These are, based on the order as adopted by IASB: understandability, relevance, reliability and comparability. The order of these qualitative characteristics by IASB is not justified. In the *Exposure Draft of Improved Conceptual Framework for Financial Reporting*,² (hereafter *The Improved Conceptual Framework*), there is a complete

change of position. The qualitative characteristics are divided into two groups: fundamental qualitative characteristics and enhancing qualitative characteristics. The fundamental qualitative characteristics consist of relevance and faithful representation. The enhancing characteristics consist of comparability, verifiability, timeliness and understandability. It is obvious that comparability is downgraded, but it is still situated above verifiability, timeliness and understandability. The change of the location of understandability is rather a very drastic one. From being on the top of the four qualitative characteristics in the IASB's *Framework*, understandability is located at the bottom of the list of the enhancing qualitative characteristics in the *Improved Conceptual Framework*.

However, the characterization of comparability as an enhancing qualitative characteristic is very problematic and illogical. Being an international harmonizing body, the whole work of IASB must be judged according to the harmonization test since harmonization is considered as the main reason for developing international accounting standards (Radebaugh et al, 2006). Harmonization is not sought per se. In 1990, IASB commits itself to the "comparability" tenet through its "*Comparability of Financial Statements Project*" issued in 1990. Then, comparability must be situated at the top of any list of qualitative characteristics considered as yardsticks against which international accounting standards are tested.

We agree with the Improved Conceptual Framework on the location of Understandability. Understandability must be situated at the end of the list of the qualitative characteristics. This is because understandability is required if accounting information is comparable at the international level. Relevance and faithful representation must also precede understandability. Relevance must precede faithful representation due to the fact that information that is faithfully represented but irrelevant for a specific decision is not going to attract the attention of decision makers. Understandability is redundant if accounting information lacks relevance and faithful representation. Although verifiability is not to be judged upon by the users of the information, it must precede understandability since, according to IASB, it is tied to faithful representation (IASB, 2008, P. 39). Variability is intended to confer assurance that information faithfully represents the economic phenomena that it purports to represent. Timeliness must also precede understandability because use of information is jeopardized if the information is not available on a timely basis. In addition, understandability would be achieved if comparability, relevance and faithful representation are existed. IASB itself suggests that "Comparability ensures understandability" (International Accounting Standards Board, 2008, p. 40).

As far as IAS 29 is concerned, it is difficult to perceive how verifiability of accounting information based on a general price index can be established. In addition, since it is prepared by non-accountants, then it is outside the domain of accounting. Timeliness is not affected by the use of general price index. Once available, the use of general price index is easy and straight forward. All historical cost-based amounts are multiplied by a general price index.

IASB gives greater weight to the two fundamental qualitative characteristics (relevance and faithful representation) since only "fundamental qualitative characteristics distinguish useful financial reporting information from information that is not useful or is misleading" (International Accounting Standards Board, 2008, P. 13). For enhancing qualitative

² This Exposure Draft represents a joint effort by ISAB and the FASB in the U.S. towards the establishment of an agreed upon conceptual framework.

characteristics (comparability, verifiability, timeliness and understandability), IASB gives them the status of a secondary importance since "the enhancing qualitative characteristics, either individually or in concert with each other, cannot make information useful for decisions if that information is irrelevant or not faithfully represented". (International Accounting Standards Board, 2008, P. 13). For the reasons discussed above, we agree with IASB's position on verifiability, timeliness and understandability, but we disagree on comparability because IASB is an international harmonizing organization. Harmonization is not an end but a means to achieve comparability. If comparability is not a fundamental qualitative characteristic, then the letter "I" must be removed from IASB to be ASB. Comparability must be considered at least as one of the fundamental characteristics, if not the most fundamental qualitative characteristic. This is because IASB in its Foundation Constitution (International Accounting Standards Board, 2006, P. 12), in its Preface to International Financial Reporting Standards (International Accounting Standards Board, 2006, P. 24), and in its Preface to Framework for the Preparation and Presentation of Financial Statements (International Accounting Standards Board, 2006, P. 32) emphasizes and repeats two words: harmonization and comparability. In IAS 29, the words "comparison" (paragraph 2) and "comparative" (paragraph 8) are alone emphasized. The other qualitative characteristics are not mentioned (International Accounting Standards Board, 2006, P. 1268 and P. 1269).

Therefore, we think that there must be three fundamental qualitative characteristics with the following order of ranking according to their importance at international level: comparability, relevance, faithful representation. Since IASB's IFRSs are intended to be used internationally, IAS 29 must secure these qualitative characteristics worldwide. Our discussion will be restricted to these three qualitative characteristics.

Hypotheses Development

In the Framework for Preparation and Presentation of Financial Statements, IASB places comparability at the bottom of its list of four qualitative characteristics (International Accounting Standards, 2006, PP 38-41). In the IASB/FASB joint conceptual framework, comparability is degraded to the status of an enhancing qualitative characteristic (International Accounting Standards, 2008, P. 13). Only relevance and faithful representation are given the status of fundamental qualitative characteristics. We think that comparability must be in the top priority. If comparability is not given a very prominent and pervasive status by an international harmonizing body such as IASB, then harmonization is a mere slogan for propaganda purpose to mask other but unannounced objectives. Comparability represents the basic essence for the establishment of IASC and the continuous viability of IASB. IASB explicitly makes it clear that its conceptual framework assists "in promoting the *harmonization*³- emphasis is

added- of regulations, accounting standards and procedures relating to the presentation of financial statements by reducing the number of alternative accounting treatments permitted by IFRSs" (International Accounting Standards Board, 2006, P. 8). This represents an adherence to the comparability objective endorsed right at the beginning of its establishment when its name was IASC. In the first objective of the Foundation Constitution ISAC declares its intention "to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and *comparable*—emphasis is added-information in financial statements and other financial reporting..." (International Accounting Standards Board, 2006, P. 12). Harmonization has no sense if it does not achieve comparability. Since harmonization is supposed to be the most important function of IASB, then comparability ought to be the single most important tenet of IASB. However, comparability is a step to unveil performance and the consequent necessity of proper ranking. This must be very important goal of comparability. In paragraph 39 of the Framework, comparison is given the status of must since IASB declares that "Users *must*—emphasis is added- be able to compare the financial statements of an entity.... Users *must*—emphasis is added- also be able to compare the financial statements of different entities...." (International Accounting Standards Boards, 2006, P. 41). The comparison characteristic is also strongly emphasized in the scope section of IAS 29 since "... Money losses purchasing power at such a rate that *comparison*—emphasis is added- of amounts from transactions and other events that have occurred at different times, even within the same accounting period is misleading" (International Accounting Standards Board, 2006, P. 1286). Depending on the above discussion, we develop the first hypothesis as follows:

H1: IAS 29 leads to an adequate comparability and a clear-cut ranking based on performance.

In its Foundation Constitution, IASB emphasizes implicitly its intention to provide the information needs of a wide range of users since it seeks the satisfaction of "*public interest*" (International Accounting Standards Board, 2006, P. 12). "Public interest" does not imply a one-sided favoritism. It requires the satisfaction of different information needs of various parties in any society or various parties in the international arena. Public interest cannot be adequately served through the mere satisfaction of the information needs of only one interested party such as shareholders. In the "Users and their information needs" section of the IASB's framework, paragraph 9, users is divided into seven groups: investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies, and public. In the next paragraph, i.e. paragraph 10, the seven groups are shrunk in only one group, that is, the investors group. IASB uses the following logic in this shrinkage "While all of the information needs of these users cannot be met by financial statements, there are needs which are common to all users. As *investors of risk capital*—emphasis is added-to the entity, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy". However, in "The Objective of Financial Statements" section of the IASB's Framework, paragraph 12, the users are not considered the only investors of risk capital but a wide range of users since IASB clearly states that "The objective of financial be compromised with in order to ensure the smooth applicability of IFRSs. Therefore, the strategy has been changed from IFRSs responding to cultural differences to the implementation of IFRSs as though cultural differences do not exist or the world has the same culture.

³ Comparability can only be achieved through either harmonization or standardization. Harmonization requires restricting the number of permissible accounting methods by allowing more than one accounting method; perhaps two or three methods. Standardization requires the use of only one accounting method. Therefore, harmonization allows some flexibility. With standardization, flexibility disappears. Although IASB claims that it seeks to achieve harmonization, its IFRSs indicate that IASB seeks standardization. The choice of harmonization instead of standardization for achieving comparability is based on plausible logic of considering cultural differences. The shift from harmonization to standardization occurred late in 1980 when IASC realized that harmonization was an obstacle to promote the wide applicability of its IASs (Nobes and Parker, 2002). This is an interesting change in strategy. It is supposed that cultural differences among countries can be accommodated through some flexibility of IFRSs. With standardization, cultural differences must

statements is to provide information ... that is useful to a *wide range of users* –emphasis is added- in making economic decisions". In the next paragraph, i.e. paragraph 13, the wide range of users are restricted when IASB indicates that "Financial statements prepared for this purpose meet the common needs of *most users* - emphasis is added". Accordingly, IASB's tones swing among "public interest", "seven user groups", "investors of risk capital", "wide range of users" and "most users". Can we reach a decisive conclusion about the specific users of financial statements whose information needs are targeted by IASB? The answer is no.

However, if we focus on the types of decision for which the information in the financial statements aims to help, then we may be able to reach a conclusive decision despite the vicious circle which IASB puts itself in. First of all, only economic decisions are emphasized by IASB. Information useful for social and environmental decisions is never mentioned. On the other hand, the emphasis on traditional economic decisions is indirectly emphasized by repeating 5 times (in paragraphs 15, 16, 17 and 18 of the IASB's framework) the required ability of financial statements in providing information that assists in evaluating the "ability of an entity to generate cash and cash equivalents" (IASB, 2006, PP.36-37).

In paragraph 15, IASB bases the making of economic decisions on information about cash and cash equivalents. Paragraph 16 emphasizes the importance of information on financial position for the evaluation of the ability of the entity to generate cash and cash equivalents. In the same paragraph IASB declares its preference for historical cost as a valuation base to render information useful to evaluate the ability of an entity to generate cash and cash equivalents. Paragraph 19 makes it clear that information about financial position is provided by a balance sheet. Paragraph 17 specifies information about performance/profitability as "useful in predicting the capacity of the entity to generate cash flows from its existing resource base". Paragraph 19 clearly states that information about performance/profitability is provided in the income statement. Paragraph 18 requires the provision of information related to changes in financial position since "this information is useful as a basis to assess the ability of the entity to generate cash and cash equivalents. Finally, paragraph 20 determines, in an indirect way, the users group IASB favors when it emphasizes that the income statement information, "provides incomplete picture of performance unless it is used in conjunction with the balance sheet and the statement of changes in financial position" This represents an emphasis on profit and wealth maximization. Profit tied to capital invested and changes in financial position or in capital gives an indication of the magnitude of the increase in capital. All these information falls within the realm of traditional financial accounting and its one sided favoritism of the owners of capital. Put differently, all requirements in paragraphs 15, 16, 17, 18, 19 and 20 are rooted in traditional financial reporting and they almost represent repetitions of doctrines espoused in American financial accounting textbooks. Since the foundation constitution and the conceptual framework of IASB are supposed to represent the pillars on which various IASs (IFRSs), including IAS 29, are ultimately based, then we develop our second hypothesis to be as follows:

H2: IAS 29 provides relevant information for economic decisions taken by shareholders.

In its conceptual framework, IASB gives emphasis to reliability as one of its four qualitative characteristics. In

paragraph 31, IASB indicates that: "To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represents faithfully that which it either purports to represents or could reasonably be expected to represent". (International Accounting Standards Board, 2006, P. 39). Representation faithfulness is given a priority by IASB for securing reliability. It is stated in paragraph 33 that "a balance sheet should represent faithfully the transactions and other events that results in assets, liabilities and equity of the entity at the reporting date to meet the recognition criteria". It has been mentioned above that faithful representation is upgraded by IASB. Instead of being an element of reliability, it is considered as one of the two fundamental qualitative characteristics. According to IAS 29, historical cost information, in a period of hyperinflationary conditions lack the reliability characteristic. This reliability characteristic is maintained through the use of general purchasing power method. All reported information is made reliable by the use of general price index. However, in IASB's conceptual framework, it is stated in paragraph 34 that "Most financial statements is subject to some risk of being less than a faithful representation of that which it purports to portray. This is not due to bias, but to inherent difficulties ... in devising and applying measurement and presentation techniques that can convey the messages that correspond with those transactions and events. In certain cases, the measurement of the financial effects of items could be so uncertain that entities generally would not recognize them in the financial statements..." IAS 29 does not mention any of these difficulties that might occur when restating amounts based on historical cost through the use of a general price index. As a result we develop our third hypothesis to be as follows:

H3: IAS 29 achieves faithful representation when historical cost information is restated through a general price index.

IAS 29 and IASB's QUALITATIVE CHARACTERISTICS - Comparability or Something Else?

The use of general purchasing power accounting method entails choosing an index to accomplish the restatement of financial statements from historical cost values to general price level adjusted values. IAS 29 does not explicitly recommend a specific price index to represent the general price level. Instead it recommends the following under the heading of "Selection and use of the general price index" in IAS 29: "The restatement of financial statements in accordance with this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index" (International Accounting Standards Board, 2006, P. 1273). Even the International Financial Reporting Interpretations Committee (IFRIC), which is responsible for issuing interpretations related to IFRSs, in IFRIC 7 that issued in 2008, does not specify the index that represents the general price level in hyperinflationary conditions.

There are many indices: consumer price index, commodity price index, producer price index, gross domestic product implicit price deflator, etc. Goldschmidt and Yaron (1991) indicate that inflation adjustment according to IAS 29 requires the use of the consumer price index (hereafter CPI). This is actually an implicit inference by Goldschmidt and Yaron, since nowhere in IAS 29 a clear-cut choice for CPI is made. This inference Goldschmidt and Yaron is possibly based on their understanding of ideological background of IASB (IASB). It will be very clear in the next section why IASB favors the use of a CPI.

Table 1. Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country. [prices in Local Currency - LC]

Panel A: Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country before adjusting for Consumer Price Index		
	Company A	Company B
Sales of 1000 units * 5LC per unit	5000	5000
Less: Cost of Goods Sold		
1000 units * LC3 per unit	3000	3000
Less: General and Administrative expenses		
1000 units * 1LC per unit	1000	1000
Net income	1000	1000
Panel B: Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country after adjusting for Consumer Price Index		
	Company A	Company B
Sales of 1000 units * 5LC per unit * 225/200	5625	5625
Less: Cost of Goods Sold		
1000 units * 3LC per unit * 225/200	3375	3375
Less: General and Administrative expenses		
1000 unit * 1LC per unit * 225/200	1125	1125
Net income	1125	1125

Source: Authors

To check whether IAS 29 achieves the comparability characteristic or not, let us consider the following two companies (Company A and Company B) that are located in a hyperinflationary country. To simplify, we assume that the two companies have the same amount of sales, cost of goods sold, and general and administrative expenses with no inventory at beginning or ending of a year. In addition, let us assume that the number of units sold, average sales price per unit and average cost per unit are identical. Finally, we assume that the two companies are carrying out all elements of the income statement evenly throughout the year.

Table (1)⁴, panels A and B, shows that if the two companies are identical in everything, there would not be any problem when their results are compared whether adjusted for price changes or not. Panel A of Table (1) shows that the two companies net income before adjusting for consumer price index are LC1,000. Panel B of Table (1), on the other hand, shows that the two companies net income after adjusting for consumer price index are LC1,125.

In summary, the results in Table 1 show that the net income is comparable between the two companies before and after adjusting for consumer price index.

We have to remember that our assumptions in Table 1 are that the two companies are identical in everything. This will never happen in the real life. Now, let us relax only one of the assumptions in the above hypothetical situation for only one company. Let us assume that company A makes all its purchases at the beginning of the year when cost per unit was LC2.8⁵. This will be an expected decision by this company if it has enough cash and it expects an increase in prices. From an efficiency perspective, this is plausible and must be encouraged.

⁴ In Tables 1-4, LC is local currency, we assume that Consumer Price Index is as follows: beginning of the year = 150, end of the year = 225, and average of the year = 200. These numbers support the assumption that the two companies are located in a hyperinflationary country because the inflation rate is 50 % [(225-150) / 150].

⁵ Choosing any cost of goods sold per unit less than LC3 for Company A will lead to same result.

Table 2. Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country after relaxing the assumption of inventory purchase date for Company A

Panel A: Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country before adjusting for Consumer Price Index and after relaxing the assumption of inventory purchase date for Company A		
	Company A	Company B
Sales of 1000 units * 5LC per unit	5000	5000
Less: Cost of Goods Sold		
1000 units * 2.8LC per unit	2800	
1000 units * 3LC per unit		3000
Less: General and Administrative expenses		
1000 units * 1LC per unit	1000	1000
Net income	1200	1000
Panel B: Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country after adjusting for Consumer Price Index for the two companies and relaxing the assumption of inventory purchase date for Company A		
	Company A	Company B
Sales of 1000 units * 5LC per unit * 225/200	5625	5625
Less: Cost of Goods Sold		
* 2.8LC per unit * 225/150	4200	
1000 units * 3LC per unit * 225/200		3375
Less: General and Administrative expenses		
1000 unit * 1LC per unit * 225/200	1125	1125
Net income	300	1125

Source: Authors

Panel A of Table 2 reveals that net income for Company A, when we relax the assumption that the two companies are purchasing inventory evenly throughout the year, is LC1,200. Compared with Panel A of Table 1, net income has been increased from LC1,000 to LC1,200. An efficient decision taken by Company's A management to purchase inventory at the beginning of the year when the prices are lower leads to an efficient result by increasing net income.

Panel B of Table 2 reveals that net income for Company A, after adjusting for the consumer price index for the two companies and relaxing the assumption that the two companies are purchasing inventory evenly throughout the year,⁶ decreased from LC1,200 to LC300 while the net income for Company B has been increased from LC1,000 to LC1,125. An efficient decision taken by Company A's management turns out to be inefficient through the use of the consumer price index. The reason behind the above result is applying IAS 29 in this country.

In summary, the results in Table 2 reveal that the net income becomes not comparable between the two companies after adjusting for consumer price index and relaxing the assumption that the two companies are purchasing inventory evenly throughout the year.

Now let us do another change in our assumptions in Table 1 by relaxing the assumption of paying general and administrative expenses evenly by Company A. We assume

⁶ Assuming that everything is identical between Company A and Company B, Company B will suffer a loss from holding cash since it has enough cash to purchase inventory at the beginning of the year but it does not. This loss will be applicable for Company B in Tables 2 and 4, for Company A in Table 3, for Company C in Tables 6 and 8 and for Company D in Table 7. However, holding cash during a period of inflation add numberless possibilities for the performance. With the cash dimension, it is almost impossible to discern the direction of performance.

Table 3. Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country after relaxing the assumption of paying general and administrative expenses evenly by Company A

Panel A: Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country before adjusting for Consumer Price Index for the two companies and relaxing the assumption of paying general and administrative expenses evenly by Company A

	Company A	Company B
Sales of 1000 units * 5LC per unit	5000	5000
Less: Cost of Goods Sold		
1000 units * 3LC per unit	3000	3000
Less: General and Administrative expenses		
1000 units * 1LC per unit	1000	1000
Net income	1000	1000

Panel B: Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country after adjusting for Consumer Price Index for the two companies and relaxing the assumption of paying general and administrative expenses evenly by Company A

	Company A	Company B
Sales of 1000 units * 5LC per unit *		
225/200	5625	5625
Less: Cost of Goods Sold		
1000 units * 3LC per unit * 225/200	3375	3375
Less: General and Administrative expenses		
1000 unit * 1LC per unit * 225/200	1125	
1000 unit * 1LC per unit * 225/225		1000
Net income	1125	1250

Source: Authors

that the company can delay paying general and administrative expenses to the end of the year. This will be an efficient decision by the management if it is possible.

Panel A of Table 3 shows that net income for Company A, when we relax the assumption of paying general and administrative expenses evenly by Company A. Compared with Panel A of Table 1, net income will not change. An efficient decision taken by Company A's management to delay paying general and administrative expenses to the end of the year will not affect net income.

Panel B of Table 3 shows that net income for Company A, after adjusting for the consumer price index for the two companies and relaxing the assumption of paying general and administrative expenses evenly by Company A, has been increased from LC1,000 to LC1,125 while the net income for Company B has been increased from LC1,000 to LC1,250. Again, an efficient decision taken by Company A's management turns out to be inefficient result through the use of the consumer price index. The reason behind the above result is applying IAS 29 in this country.

In summary, the results in Table 3 show that net income is not comparable between the two companies after adjusting for consumer price index and relaxing the assumption of paying general and administrative expenses evenly by Company A.

Now, let us relax another assumption. Let us assume that company A makes all its sales at the end of the year when selling price per unit was LC5.625. This will not be an efficient situation because any company tries to sell its inventory as soon as possible without any delay.⁷

⁷ To be unbiased in choosing the percentage increase in the selling price at year end, we take the percentage increase in consumer price index between the average and year end $[(225/200) - 1]$; i.e. 12.5%. Choosing any selling price more or less than that will affect the results.

Table 4. Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country after relaxing the assumption of selling inventory evenly for Company A

Panel A: Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country before adjusting for Consumer Price Index and after relaxing the assumption of selling inventory evenly for Company A

	Company A	Company B
Sales		
1000 units * 5.625LC per unit	5625	
1000 units * 5LC per unit		5000
Less: Cost of Goods Sold		
1000 units * 3LC per unit	3000	3000
Less: General and Administrative expenses		
1000 units * 1LC per unit	1000	1000
Net income	1625	1000

Panel B: Income statements for two companies (Company A and Company B) that are located in a hyperinflationary country after adjusting for Consumer Price Index for the two companies and relaxing the assumption of selling inventory evenly for Company A

	Company A	Company B
Sales		
1000 units * 5.625LC per unit *		
225/225	5625	
1000 units * 5LC per unit * 225/200		5625
Less: Cost of Goods Sold		
1000 units * LC3 per unit * 225/150	4500	4500
Less: General and Administrative expenses		
1000 unit * 1LC per unit * 225/200	1125	1125
Net income	0	0

Source: Authors

Panel A of Table 4 reveals that net income for Company A before adjusting for Consumer Price Index, when we relax the assumption that the two companies are selling inventory evenly throughout the year, is LC1,625. Compared with Panel A of Table 1, net income for Company A has been increased from LC1,000 to LC1,625. An inefficient situation by Company A to sell inventory at the end of the year leads to an efficient result by increasing net income by additional LC625.

Compared with Panel A, Panel B of Table 4 reveals that net income for Company A, after adjusting for the consumer price index for the two companies and relaxing the assumption that the two companies are selling inventory evenly throughout the year has been decreased from LC1,625 to LC0 while it has been decreased for Company B from LC1,000 to LC0. An inefficient situation for Company A leads to an inefficient result by decreasing the net income for additional LC625 compared with Company B. Again, The reason behind the above result is applying IAS 29.

In summary, the results in Table 4 reveal that net income is not comparable between the two companies after adjusting for consumer price index and relaxing the assumption that the two companies are selling inventory evenly throughout the year.

In our examples and discussions, we assumed that the two companies, A and B, are located in one country. Now let us consider similar cases for two companies, C is a parent and D is a subsidiary that is located in another country. To simplify our example and to be theoretically comparable example, we assume that the two companies have the same amount of sales, cost of goods sold, and general and administrative expenses with no inventory at beginning or

Table 5. Income statements for two companies, Company C that is located in a low inflation country and Company D that is located in a hyperinflation country.

Panel A: Income statements for two companies, Company C that is located in a low inflation country and Company D that is located in a hyperinflation country, before adjusting for Consumer Price Index

	Company A	Company B
Sales of 1000 units * 5LC per unit	5000	5000
Less: Cost of Goods Sold		
1000 units * 3LC per unit	3000	3000
Less: General and Administrative expenses		
1000 units * 1LC per unit	1000	1000
Net income	1000	1000

Panel B: Income statements for two companies, Company C that is located in a low inflation country and Company D that is located in a hyperinflation country, after adjusting for Consumer Price Index

	Company A	Company B
Sales		
1000 units * 5LC per unit	5000	
1,000 units * 5LC per unit * 135/115		5870
Less: Cost of Goods Sold		
1,000 units * 3LC per unit	3000	
1000 units * 3LC per unit * 135/115		3522
Less: General and Administrative expenses		
1000 units * 1LC per unit	1000	
1000 unit * 1LC per unit * 135/115		1174
Net income	1000	1174

Source: Authors

ending of a year. Number of units sold, average sales price per unit and average cost per unit are identical. In addition, we assume that the two companies are carrying out all elements of the income statement evenly throughout the year. Finally, we assume that Company D's functional currency is FC which is the same currency used in Company D, no effect on changes on exchange rate, and the inflation rate in the country where Company C located is 5% (no need to apply IAS29) where the inflation rate in the country where Company D located is 35% (hyperinflation; i.e. IAS29 must be applied).

Panel A of Table (5)⁸ shows that if the two companies are identical in everything, the net income before adjusting for consumer price index is LC1,000. This means that their results are comparable if IAS 29 is not applied in the two countries. Panel B of Table (2), on the other hand, shows that the two companies net income after adjusting for consumer price index. Company's D net income has been increased from FC1,000 to FC1,147. The performance of Company D becomes better than that for Company C. Their results after applying IAS29 become not comparable.

In summary, the results in Table 5 show that the net income is comparable between the two situations before adjusting for consumer price index while it is not after adjusting for consumer price index.

As we did in Table 2, let us now relax only one of the assumptions in the above hypothetical situation for only Company D. Let us assume that company D makes all its

⁸ In Tables 5-8, FC is functional currency. We assume that Consumer Price Index is as follows: beginning of the year for Company's C and Company's D country = 100, end of the year for Company's C country = 105, end of the year for Company's D country = 135, average of the year for Company's C country = 102, and average of the year for Company's D country = 115. These numbers are supporting the assumption that Company C is located in a low inflation country while Company D is located in a hyperinflation country.

Table 6. Income statements for two companies, Company C that is located in a low inflation country and Company D that is located in a hyperinflation country, after adjusting for Consumer Price Index and relaxing the assumption of inventory purchase date for Company D.

	Company A	Company B
Sales		
1000 units * 5LC per unit	5000	
1,000 units * 5LC per unit * 135/115		5870
Less: Cost of Goods Sold		
1,000 units * 3LC per unit	3000	
1000 units * 2.8LC per unit * 135/100		3780
Less: General and Administrative expenses		
1000 units * 1LC per unit	1000	
1000 unit * 1LC per unit * 135/115		1174
Net income	1000	916

Source: Authors

Table 7. Income statements for two companies, Company C that is located in a low inflation country and Company D that is located in a hyperinflation country, after adjusting for Consumer Price Index and relaxing the assumption of paying general and administrative expenses evenly by Company D

	Company A	Company B
Sales		
1000 units * 5LC per unit	5000	
1,000 units * 5LC per unit * 135/115		5870
Less: Cost of Goods Sold		
1,000 units * 3LC per unit	3000	
1000 units * 3LC per unit * 135/100		3522
Less: General and Administrative expenses		
1000 units * 1LC per unit	1000	
1000 unit * 1LC per unit * 135/135		1000
Net income	1000	1348

Source: Authors

purchases at the beginning of the year when cost per unit was FC2.8. This will be an efficient decision if this company has enough cash and they expected an increase in the prices.

Table 6 reveals that Company D's net income, when we relax the assumption that the two companies are purchasing inventory evenly throughout the year for Company D, has been decreased from FC1,147 (Panel B of Table 5) to FC916. In addition, the performance of Company D becomes worse compared with the performance of Company C (it was better in Table 5). An efficient decision taken by Company D's management to purchase inventory at the beginning of the year when the prices are lower leads to an inefficient result by decreasing net income.

In summary, the results in Table 6 reveal that net income is not comparable between the two companies after adjusting for consumer price index and relaxing the assumption that the two companies are purchasing inventory evenly throughout the year.

Now let us do another change in our assumptions in Table 5 by relaxing the assumption of paying general and administrative expenses evenly by Company D. We assume that Company D can delay paying general and

Table 8. Income statements for two companies, Company C that is located in a low inflation country and Company D that is located in a hyperinflation country, after adjusting for Consumer Price Index and after relaxing the assumption of selling inventory evenly for Company D

	Company A	Company B
Sales		
1000 units * 5LC per unit	5000	
1,000 units * 5.87LC per unit * 135/135		5870
Less: Cost of Goods Sold		
1,000 units * 3LC per unit	3000	
1000 units * 3LC per unit * 135/115		3522
Less: General and Administrative expenses		
1000 units * 1LC per unit	1000	
1000 unit * 1LC per unit * 135/115		1174
Net income	1000	1174

Source: Authors

administrative expenses to the end of the year. This will be an efficient decision by management if it is possible.

Table 7 reveals that Company D's net income, when we relax the assumption of paying general and administrative expenses evenly by Company D, has been increased from FC1,147 (Panel B of Table 5) to FC1,348. The performance of Company D becomes much better than the performance of Company C, (if it is compared with Table 5). An efficient decision taken by Company D's management to delay paying general and administrative expenses to the end of the year leads to an efficient result by increasing net income.

In summary, the results in Table 7 reveal that net income is not comparable between the two companies after adjusting for consumer price index and relaxing the assumption that the two companies paying general and administrative expenses evenly throughout the year.

Finally, as we did in Table 4. Let us assume that company D makes all its sales at the end of the year when selling price per unit was LC5.87. This will not be an efficient situation because any company tries to sell its inventory as soon as possible without any delay. To be unbiased in choosing the percentage increase in the selling price at year end, we take the percentage increase in consumer price index between the average and year end [(135/115) – 1]; i.e. 17.39%.

Table 8 reveals that Company D's net income, when we relax the assumption of selling inventory evenly for Company D, is equal FC1,147. This is exactly the net income shown in Panel B of Table 5. The performance of Company D, in Table 5 with the assumption of selling inventory evenly for Company D, is exactly comparable with its performance in Table 8 after relaxing the assumption of selling inventory evenly and assuming that Company D delays its sales to the end of year. An efficient decision taken by Company D's management to delay selling its inventory to the end of the year does not lead to an efficient result by increasing net income.

In summary, the results in Table 8 reveal that net income is comparable between the two situations even though the company takes an efficient decision.

Two conclusions can be drawn from Tables 1 through 8. First, the performance of any company could be changed as a result of the hyperinflation. Companies' performance ranking switches from better to worse or vice versa. Second, adjusting for CPI (applying IAS 29) leads to non-comparable

results between the numbers reported in the financial statements of different companies. A company could be worse or better than another one when it takes efficient or inefficient decisions. We think that the major reason for non-comparability in results is that IAS 29 requires companies that are located only in hyperinflation countries to restate some of their numbers in the financial statements. A company that is located in a country with inflation rate 20% is not required to restate its numbers while another one that is located in a country with inflation rate 35% is required. We think that to get comparable results, the standard should be applied for, if necessary, all companies as the cost of applying the standard is less than the benefit. As a result, we can say that the first hypothesis that IAS 29 leads to an adequate comparability and a clear-cut ranking based on performance is rejected.

Relevant Information by IAS 29 to Shareholders

Through the use of a consumer price index, historical accounting figures are adjusted by a figure based on a basket of goods and services for final consumption. CPI for adjusting accounting figures is used to ensure that what the shareholders can enjoy at the beginning of a period can still enjoy at the end of the period. This is consistent with Hicks' definition of income as "the maximum value which he [the income recipient] can consume during a week and still expects to be as well off at the end of the week as he was at the beginning" (Hicks, 1946). The CPI is grounded completely in the Hicksian definition of income. This is because the definition specifies how capital is determined. Capital, expressed in a monetary unit, is a collection of consumer's goods and services. This collection allows a specific enjoyment. This enjoyment must be maintained at the end of the period if the well-offness of a human being is to be maintained. In a period of rising prices, the maintenance of enjoyment suffers if it is not adjusted for the rise in the prices of consumers' goods and services. Therefore, the CPI achieves the objective of Hicks' definition of income.

There is an explicit indication that IASB favors consumer price index. In paragraph 10 of IASB's Framework, it is made clear that financial statements should provide the information needs of capital providers. It is stated that "While all of the information needs of these users cannot be met by financial statements, there are *needs which are common to all users. As investors are providers of risk capital to the entity, the provision of financial statements that meet their needs will also meet most of the needs of other users* that financial statements can satisfy." (Emphasis is added) (International Accounting Standards Board, 2006, P. 35).

For IASB, investors of risk capital are shareholders. This is due to its definition of investors in paragraph. 9 of IASB' Framework. Thus, shareholders' information needs are assumed by IASB to be of a paramount priority. Moreover, shareholders' priorities ought to dominate, and all other interested users in the financial statements ought to have, or IASB wants us to believe that they actually have, the same priorities. There are two hypotheses implied by IASB's favoritism. These are the sameness hypothesis and altruism hypothesis. The first hypothesis suggests that information needs of all interested users in the financial statements are the same. A wider commonality of information needs is assumed. This assumes that all users of the financial statements have almost similar information needs. The second hypothesis is that what is good for shareholders must also be good for everybody. Well-offness would be enjoyed by all members of a society. This assumes the existence of ethicality and, by consequence, altruism by

shareholders. Accordingly, it should be a wrong held belief that shareholders are self-interested, selfish and greedy. They are altruists. Real world evidence, throughout history, would emphatically refute both of these implied hypotheses.

The conclusion to be drawn based on the above argument is that IASB adopts proprietorship theory of the accounting entity. The entity is a mere vehicle for achieving one, and only one, purpose, that is, of ascertaining the objective(s) of its capital providers. Since social goals are not sought by IASB, then the other implicit assumption, in addition to the maintenance of capital providers' well-offness, is profit maximization. This means that IASB is ideologically biased.

This bias has its roots in the Anglo-American accounting. The IASB position on information needs of various interested users would have taken a different route had not been influenced by the Anglo-American accounting. Various authors give an almost conclusive argument and evidence to the effect that IASs and IFRSs are so heavily dominated by Anglo-American accounting [Nobes (2003); Nobes and Parker (2002)]. Flower (1997) suggests the existence of the dominance of U.S. accounting in a different way when he argues that "For the first twenty years of its existence, the IASB did not issue a single standard that was in fundamental opposition to U.S. GAAP".

Capitalistic spirit is considered as a major drive in the development of accounting (Kam, 1990). Perhaps Sombart was the first to suggest that accounting had a capitalistic orientation. He resembles the relationship between accounting and capitalism to that of the form and content. For Sombart, the intimacy between accounting and capitalism is so strong to the extent that "one cannot say whether capitalism created double-entry bookkeeping as a tool in its expansion; or perhaps conversely, double-entry bookkeeping created capitalism" (Riahi-Belkaoui, 2004; originally in Sombart, 1915). This historical relationship between accounting has never been severed. On contrary, it has been strengthened as capitalism has triumphed worldwide.

As far as particular countries are concerned, the U.K. and the U.S. are the two countries where accounting has the strongest roots in capitalism. For Ijiri (1975), accounting in these two countries is biased towards satisfying the information needs of investors (capitalists). This type of favoritism is manifested in the conceptual frameworks. The FASB's conceptual framework, particular in objective no. 2, favors the provision of the information that satisfies the needs of shareholders (Riahi-Belkaoui, 2004). The Corporate Report (Accounting Standards Steering Committee, 1975) represents a surprise deviation from the long-established orientation of the UK accounting towards capitalism tenets by its intention to satisfy the information needs of all groups in society through its adoption of broader notion of users' rights. However, the accounting profession did not favor this position. In 1991, the Accounting Standards Board started developing a new conceptual framework in line with that of the FASB (Deegan and Unerman, 2011). In a plain language, this was sad retreat and an obvious triumph of capitalism.

Many in the U.S. and in the U.K. who question the logic behind the bias and favoritism accorded to shareholders. Kelly (2001) is highly critical of the position enjoyed by shareholders in the U.S. despite the fact that "... about one in one hundred dollars trading on public markets has been reaching corporations. In other words, ninety-nine out of one hundred "invested" dollars are speculative". Based on statistics provided by the Federal Reserve, Kelly (2001) concludes that "it is inaccurate even to speak of stockholders

as investors. For more truthfully, they are extractors. When we buy stock, we are not contributing capital; we are buying the right to extract wealth". This bias and favoritism accorded to shareholders is extended to accounting education in the U.S. "Students are also taught the mantra of capitalism- the purpose of business is to maximize shareholders' value." (Ravenscroft and Williams, 2004). Cooper and Sherer (1984) have no doubt that accounting, at practical and theoretical levels, suffers from the overwhelming orientation to shareholders' wishes and demands.

If this bias and favoritism is transferred through IAS 29 to countries which suffer from hyperinflationary condition, then it is highly questionable whether this bias and favoritism have any validity whatsoever for all interested groups in accounting information. It has already been mentioned that IASB recommends the implementation of IAS 29 by all entities. If IAS 29 implementation covers all entities in hyperinflationary conditions, there appears the dichotomy of private sector-owned business entities and public-sector owned business entities. The direct owner of public sector-owned entities is the government. In Russia, for example, the government has its own oil companies as well as joint ownership with private sector (Locatelli, 2006). Military equipment companies are totally owned by the Russian government. What does a government have to do with consumers' goods and services? The purchasing power of any government cannot be measured though the changes in consumers' prices of goods and services. A government does not spend on consumers' goods and services. A government lacks any enjoyment in these goods and services. Actually, a government does not have enjoyment. The question is: does this bias and favoritism result, at least, in accounting information relevant to shareholders?

If the implementation of the IAS 29 is restricted to subsidiaries located in hyperinflationary countries, then their shareholders' general purchasing power may not be maintained because these shareholders may live in different countries. They may live in different countries with different prices of consumers' goods and services. Capital is maintained, according to a IAS 29, in the host country that has nothing to do with the prices of consumers' goods and services in shareholders' home countries. Relevance to shareholders in the home country is most likely lost if it is ever achieved in the host country through the implementation of IAS 29. This means that IASB's implicit goal of maintaining the purchasing power of the shareholders is not achieved. If shareholders live in different countries, it is difficult to imagine how their spending capacity is maintained. Again, IASB's implicit goal of maintaining the purchasing power of the shareholders is not achieved. Let us assume, for the sake of the argument, that all shareholders of a specific entity and the entity itself are in the same hyperinflationary country. The question is: whose basic goods and services are chosen for inclusion in the basket of goods and services, those consumed by shareholders or those consumed by the non-shareholders (the low income consumers)? Even for these basic goods and services, there are goods and services with highest quality and others with lowest quality. In a hyperinflationary condition, the non-shareholders (the low income consumers) switch their consumption of goods and services with the highest quality to those with the lowest quality. In a period of a hyperinflation, shareholders' purchasing ability does not suffer. The huge amount of money available to them gives them the required ability to maintain their usual consumption pattern and even allows them to accumulate more wealth and enjoy the consumption of more prestigious goods and services. It is a total outrageous to construct two different

consumer price indexes (one for those who own –the rich– and the other for those who do not own–the poor). It is practically, socially, psychologically and humanitarially impossible. Again, IASB's implicit goal of maintaining the purchasing power of the shareholders is not achieved.

Accordingly, the second hypothesis that IAS 29 provides relevant information for economic decisions taken by shareholders is rejected.

The Faithful Representation of the Hyperinflationary Phenomenon

Accounting exists as long as representation of phenomena is achieved. It is absolutely right to say that accounting is about representation. Representation must be differentiated from faithful representation. The former is a function. It is *the* most important function. Accounting existence is at stake if representation is not made. Accounting has no meaning whatsoever without representation. On the other hand, faithful representation is a qualitative characteristic. The function (representation) is separate from the qualitative characteristic (faithful representation). However, faithful representation cannot be achieved without representation. Faithful representation must be preceded by representation. Faithful representation, as a qualitative characteristic, is about the nature of the function, the representation, or the nature of the represented. The difference between the two resembles the difference between the most fundamental function of a camera, i.e. taking a photo, and the qualitative characteristic of having faithful representation (the ugliest is represented as the ugliest).

When historical cost valuation approach is used, prices/values negotiated and accepted between the parties involved in business transactions in the past are used in the accounting records. As far as history is concerned, assuming the existence of freedom from bias and undue error (or the absence of manipulative behavior and the existence of good faith), the function (representation) achieves faithful representation. This representation is made for internal purpose. There is a repetition of this internal representation for external purpose when financial statements are prepared and sent for use by external parties. If the internal representation is concurrently made available for external purpose, there would not be any problem. Representation and faithful representation are perfectly achieved.

If prices are absolutely static, there would also be no problem when the representation is made again thorough financial statements for external purposes, and the situation is identical to conducting the representation and sending this representation to outside parties concurrently. However, a problem, or even a horrendous problem (depending on one's viewpoint), exists when values/prices at the time when financial statements are prepared are different from those when transactions were internally recorded. In this eventuality, representation exists but faithful representation does not exist. To achieve faithful representation, prices/values in the past are restated in order to have current reflection.

The restatement of prices/values falls within a neighbor field of inquiry, that is, economics. When the monetary unit value is the locus of interest, economics advises us to use a general price index to accomplish the restatement (the representation). If price movements are related to specific business entity, economics advises us to use current replacement /values (i.e. the entry value of individual assets and liabilities) to accomplish the restatement (the representation). Since IAS 29 looks at price movements from the perspective of monetary unit value, our discussion

will solely be restricted to general price movements and general price index.

Inflation does not take on one type. If the magnitude of inflation is considered, there is low and high inflation. If the degree of stability is the issue, there is stationary inflation and explosive inflation (Fiorencio and Moreira, 2001). If inflation behavior is explained relative to other factor(s), there is a linear and nonlinear inflation (López-Villavicencio and Mignon, 2011). If the cause of inflation is considered, there is a demand-pull inflation and cost-push inflation.

Hyperinflation represents a specific type of inflation relative to its magnitude. The reason for its occurrence is an unprecedented increase in the money supply and an increase in the velocity of money.

Under inflationary condition, it is assumed that the real values of non-monetary items are maintained. It is only monetary items that suffer a loss in their value, or more eloquently, they suffer a loss in their purchasing power. An increase in the general level of prices implies a decrease in the purchasing power of the currency. That is, when the general level of prices rises, each monetary unit buys fewer goods and services.

The phenomenon of a decline in the value of money or the general increase in prices is represented by a general price index. It is a sub-area (a sub-field of inquiry) within economics area (a field of inquiry). All accountants deal with the accounting for inflation concede that the whole episode of inflation including the definition of inflation and hyperinflation and the construction of various indices fall within the domain of economics. This is manifested through the use of economics' references by accountants when they deal with the accounting for inflation. Therefore, we must be aware that accounting for inflation requires mixing or dealing with two phenomena: an economic phenomenon (inflation) and accounting representation of transactions of items (an accounting phenomenon). Since accountants use what economists adopt in the area of inflation, then accountants take for granted the adequacy of representation, and, in particular, faithful representation of a price index.

In accounting, we are interested in the magnitude of inflation to consider the possibility of restating financial statements. If the level of inflation is very low the phenomenon is considered as though it does not exist. This is why no attention was given to the impact of inflation on accounting information when the inflation rate before the mid of the 1970 was a one digit figure. SSAP 16 in the U.K. and (SFAS 33, SFAS 82 and SFAS 89) in the U.S. were issued when the inflation rate became two digits figure. It is generally regarded that when inflation rate is low, the benefits of implementing accounting for inflation are outweighed by the cost of implementation. Historical cost principle is maintained and financial statements are based on prices that took place in the past. However, accountants start debating the possibility of restatement when inflation rate becomes high. For some accountants, historical cost principle is the untouchable (sacred) no matter how the level of inflation is [e.g. Littleton, 1952; Kohler, 1963; Ijiri, 1971; Anthony, 1976]. This debate of sacredness of historical cost aside, the issue of accounting for inflation has been generating a tremendous amount of literature. There is no doubt that this literature has expanded our enlightenment in both accounting and other neighboring fields, especially economics.

For economists, a monthly inflation rate above 50% represents a hyperinflationary situation (Ragan and Lipsey, 2008). IAS 29 is applicable when accumulative inflation rate over three years is approaching or more than 100%. Our

concern in accounting is about representation and representation faithfulness of the phenomenon. It is totally understandable that a phenomenon must be persistent in order to implement an accounting method. Accounting methods are not applicable to fleeting phenomena. Therefore, IASB position is quite right. However, the criteria set by IASB between persistent and fleeting phenomena are neither fully explained nor justified. As a matter of fact, IASB does not mention either the persistent or the fleeting phenomenon. However, the 100% and other circumstances required to explain the existence of hyperinflationary conditions could, rightfully, be regarded as an attempt by IASB to set a border line, albeit not meticulously delineated, between a persistent and fleeting phenomenon.

As far as the representation of the phenomenon is concerned, a price index constitutes a representation as long as prices or prices and commodities are used in its construction. The camera takes a photo of the locus of interest. More important than a representation is a faithful representation. It is the specific quality of the photo that most matters for accountants.

A price index is a figure. Like any other figure, it is a representation. It is important for accounting matters that a representation constitutes a faithful representation. It is called a general price index. "General" denotes its mission to represent/reflect the status of "all" prices of "all" goods and services in a given region (country) at a specific point of time (e.g. January 1st, 2012). To include "all" goods and services and their prices in order to calculate a general price index is absolutely impossible in any country in the world. This is so because "all" goods and services and their prices are not known, and for practicality reason they cannot be known. It is possible to know all goods and services and their prices in a very simple economy consisting of a very small number of goods and services. Therefore, choosing anything less than "all" decreases the generality of representation no matter how the generality is near to the representation of all. Therefore, the generality is partially represented. The best we can hope for is a reasonable representation of all goods and services and their prices. This reasonableness could be achieved when there is few estimates and fill in the blanks. In certain countries, especially those that lack resources and adequate expertise, the representation of the "generality" is far from being reasonable.

In hyperinflationary conditions, the generality problem is aggravated. There are many reasons for the lack of reasonable representation. In a hyperinflationary situation, it is quite possible that consumers switch their consumption from goods and services with high prices to goods and services with low prices. If prices are changing very rapidly, then there is a problem of a rapid switching of consumption (the phenomenon of substitution) from goods and services with higher prices to those with lower prices. The switching phenomenon can be continuous in a hyperinflationary condition. This makes the choice of goods and services and their prices for inclusion in a basket of goods and services very difficult and cumbersome. A case in point is Iraq. There were many problems with the Iraq consumer price index during 1991-1996.⁹ These problems influence

negatively its accuracy and any chance of reasonably representing real movements in prices. First, during the hyperinflation in Iraq, Iraqi consumers switched their consumption among goods and services many times even in a short period of time (e.g. kerosene instead of gas; public transport instead of taxis; date syrup instead of sugar). Second, their consumption of certain goods and services were either curtailed (e.g. private health care) or totally stopped (e.g. cigarettes, milk, and ice-cream) especially by those hard hit by the soaring prices. Third, home-made goods were substituted for market goods (e.g. candies, bread, soap, tomato paste, candle, clothes, etc.). Home-made goods are not included in the calculation of a consumer price index since they are not exchangeable in a market place. In the Iraq case, these home-made substitutes were very important and essential since they were effective in allowing Iraqis to reduce the agonies and sufferings of the hyperinflation. The Iraq case in a hyperinflationary condition is not unique. The situation in Russia, another country experienced a hyperinflationary condition, is not different. For example, Gibson et al. (2008) suggest that it is quite possible that hyperinflationary conditions cause Russian consumers to substitute between goods. It is legitimate to question the generality as well as the validity of a consumer price index in a hyperinflationary situation. In Russia, the measured consumer price index during the period of large price shock was biased. In addition, Gibson et al. (2008) finds that "the official Russian consumer price index to has overstated the rise in the cost of living and hence understated real income growth....". The official price index is far from being representative of the prices of goods and services and accordingly far from being representative of the inflation rate. Then, accounting restated values have no economic interpretation.

As a result, we can say that the third hypothesis, that IAS 29 achieves faithful representation when historical cost information is restated through a general price index, is rejected.

Conclusions

IAS 29 is supposed to offer a solution to the effects of hyperinflationary conditions on the information contained in the financial statements. IASB sets criteria for distinguishing useful from non-useful information. These criteria are represented by a group of qualitative characteristics. IASB chooses two qualitative characteristics that draw a line between useful information from non-useful information. These two qualitative characteristics are relevance and faithful representation. A very fundamental qualitative characteristic, that is, comparability is accorded the status of an enhancing qualitative characteristic in the IASB/FASB's joint conceptual framework. The core and most fundamental mission of IASB, by its own admission, is harmonization. It is logical to add comparability to the group of fundamental qualitative characteristics. Comparability ought to be the result of all harmonizing activities by IASB. Without harmonizing activities that leads to comparability, IASB must close its doors in London where it is based. Then, against the background of the three qualitative characteristics, IAS 29, and indeed all other IFRSs, must be evaluated and tested. Our evaluation and test indicate that IAS 29 represents a total failure since none of the three qualitative characteristics are achieved when the CPI is used as a converting factor from historical cost-based amounts to amounts stated in general purchasing power expressions. Amounts converted according to CPI changes what is efficient behavior into inefficient behavior. The use of the CPI reflects IASB's preference and bias towards the owners of risk capital, in

⁹ In Iraq, during the period 1991-1996, the exchange rate reached unprecedented figure. The exchange rate against the dollar before 1991 was 0.333 Iraqi Dinar for each dollar. During the period 1991-1992, the exchange rate against the dollar oscillates between 2,000 -5,500 Iraqi dinar for each dollar. In one day, for unknown reason, it dropped to less than 500 Iraqi Dinar for one Dollar. Then, it quickly swung back to more than 3000 Iraqi dinars for one dollar. In May 1996 the oil for food and medicine program between the Iraqi government and UN was signed which was quite instrumental in reducing greatly the level of inflation. The agreement was effective in 1997.

particular shareholders. Accordingly, relevance is meant to provide information useful for decisions made by shareholders. IAS 29 is not capable of achieving this ideologically biased relevance at both the national and international level. This irrelevance is aggravated by the CPI calculated in hyperinflationary conditions. CPI is derived from a basket of consumers' goods and services. Internationally, the purchasing tendencies of shareholders located in any country are totally different from a country in which a company's financial statements for which IAS 29 are implemented. Even at the national level, the calculation of a CPI in hyperinflationary conditions is not based on goods and services actually consumed but based on goods and services exchanged in a market place. Home-made goods and services are substituted for many goods and services exchanged in the market place. The calculation of a CPI is even rendered unreliable by the continuous shift by consumers from high quality goods and services with high prices to low quality goods and services with low prices. In these circumstances, even ideologically biased relevance is impossibility. As for faithful representation, it requires techniques that allow giving an adequate, if not an accurate, picture of the phenomenon depicted. First of all, a CPI, no matter how accurate this CPI is, cannot give a reasonable approximation of the generality characteristic intended to be achieved. It is supposed to be a general price index of consumers' goods and services. The generality can be achieved if all goods and services in an economy are included in the basket of goods and services. It is difficult to explain the position of this generality in hyperinflationary conditions. It has been mentioned that substitution of goods and services is continuous in the hyperinflationary conditions. It has also been mentioned that home-made consumers' goods and services are not included in the basket of goods and services. Besides, all CPIs and all other indexes are known to have biases of their constructors as well as fill in the blank for many missing data. Since generality of a CPI is lacking, then faithful representation is also lacking. It appears that "something is better than nothing" does not work in the case of IAS 29.

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