Journal of Modern Accounting and Auditing, July-Sep. 2025, Vol. 21, No. 3, 131-142
doi: 10.17265/1548-6583/2025.03.005

Assessing the Reliability of Financial Reports Amid Inflation: The Role of Inflation Accounting Implementation

Hazri Wahyuni Ht. Suhut, Hardea Putriani Fadhila, Christian Halomoan Hasibuan, Iskandar Muda
Universitas Sumatera Utara, Medan, Indonesia

Continuously increasing inflation is a major challenge in presenting reliable and relevant financial reports, especially in developing countries like Indonesia. This study aims to analyze the role of inflation accounting in increasing the reliability of financial reports during times of high inflation. With a qualitative-descriptive approach, this research examines two main methods in inflation accounting, namely General Price Level Accounting (GPLA) and Current Cost Accounting (CCA), and their impact on the value of assets, liabilities, income, and costs. The analysis results show that historical cost-based financial reports do not reflect actual economic conditions during inflation, so they can be misleading in decision making. The application of inflation accounting, through adjustments to purchasing power and current prices, has been proven to be able to increase the relevance and reliability of financial information. However, limitations in implementation in Indonesia are due to the lack of regulations and practical understanding regarding this method. Therefore, the application of inflation accounting is important in supporting the quality of financial reports and more accurate decision making amidst economic instability.

Keywords: inflation accounting, financial reports, reliability, GPLA, CCA, inflation

Introduction

Indonesia is one of the developing countries, a common problem often faced by developing countries is the increasing inflation rate every year. Since the monetary crisis in 1998, market prices have tended to rise. According to data from the Central Statistics Agency (BPS), annual inflation (year-on-year) in April 2022 had reached 3.47 percent (year-on-year), the highest since August 2019. Data from Indonesian Financial Economic Statistics (1998) stated that in addition the economic crisis also caused economic variables, such as SBI interest rates, inflation, to experience quite sharp changes. Interest rates increased to reach 68.76% per year in 1998, as well as inflation reaching 77% per year. Price increases caused by inflation are not caused by technological factors or seasonal influences, for example prices increase because of the approaching holiday but are caused by the influence of market mechanisms between free parties (supply and demand).

According to Bank Indonesia (BI), it is projected that the inflation rate in 2022 will increase to a level above four percent or exceed the target of two percent to four percent. The inflation rate in Indonesia will accelerate

Hazri Wahyuni Ht. Suhut, Master's Student of Accounting, Faculty of Economics and Business, Universitas Sumatera Utara, Medan, Indonesia.
Hardea Putriani Fadhila, Master's Student of Accounting, Faculty of Economics and Business, Universitas Sumatera Utara, Medan, Indonesia.
Christian Halomoan Hasibuan, Master's Student of Accounting, Faculty of Economics and Business, Universitas Sumatera Utara, Medan, Indonesia.
Iskandar Muda, Doctor of Accounting, Faculty of Economics and Business, Universitas Sumatera Utara, Medan, Indonesia.

along with Indonesia's economic growth. Rapu et al. (2016) states that high inflation is detrimental to the economy for several reasons, namely distorting prices, consuming savings, discouraging investment, leading to and/or triggering capital flight, inhibiting growth, making economic planning difficult, and exacerbating the possibility of social and political disruption.

"Price level accounting" is the more popular term for inflation accounting. This unique accounting method is applied to financial statement adjustments. A company's financial statements are adjusted when there is a material amount of price inflation that makes historical information on the financial statements irrelevant or less useful. Inflation accounting is very important for businesses because, in many cases, income taxes payable and reported income are overstated when asset figures decline. This is due to the low value of depreciation according to purchase price. Mishra (2018) claims that the process of fully restating financial statements based on past acquisition prices to reflect changes in the purchasing power of a currency as indicated by an index number is known as inflation accounting for accounting. Inflation accounting provides its users with extra information, but it does not replace current conventional accounting.

In Financial Accounting Standards, it is stated that the information presented in the financial statements aims to provide useful information to estimate cash flow prospects, for investment and credit decision making, as well as to provide information related to economic resources and changes that occur therein. To meet the objectives of financial reporting, the information must be of high quality, relevant, have predictive value, be presented on time, and be reliable. According to the Head of BPS Suryamin, the decline in inflation last month was triggered by the government's efforts to control inflation. Among these attempts was raising the benchmark interest rate (BI rate) from the previous 6.5% to 7%, a 50-point rise.

An accounting procedure called inflation accounting generates data that accounts for the magnitude of price fluctuations. Several concepts, including the current cost accounting concept, can be used in the presentation of financial data pertaining to price increases brought on by inflation (Nasution, Arismunandar, Muda, Soemitra, & Sugianto, 2024). This concept maintains the unit of measurement but deviates from the historical acquisition price model, then the General Price Level Accounting Concept. This concept changes the unit of measurement but maintains the reporting model based on historical acquisition prices. Reliability is very important in financial statements so that the information presented is useful. Reliable information is very useful when business decisions must be made. There will also be a rise in financial performance if the appropriate business judgements are made. Financial reports will be more useful to the business as a result. Economic entities favour income that is accurately assessed, accounting for inflation to guarantee the profit's actual purchasing power. Since inflation is a persistent issue, the business must take it into consideration. Notably, estimating accounting procedures and interpreting financial accounts are frequent accounting problems. To increase business quality and performance and make the best organisational decisions, annual reports need to be accurate. This study prepares businesses for the practices to be used in the event of future developments of high inflation and outlines the proper actions to be performed during times of high inflation.

Literature Review

Inflation Accounting Theory

Basic concepts of inflation accounting. Inflation accounting is an approach used to adjust financial statements to economic conditions experiencing inflation. In this context, inflation can affect the purchasing power of money and, as a result, the value of assets and liabilities recorded in the financial statements. According to the IASC (International Accounting Standards Committee), inflation accounting aims to provide more relevant and reliable information to users of financial statements, especially in unstable economic conditions (IASC, 1989). One of the basic concepts in inflation accounting is measuring historical versus current value. In inflationary conditions, the historical value of assets and liabilities often does not reflect their actual value in the market. For example, if a company purchased a fixed asset worth Rp 100 million ten years ago, the market value of the asset may have been much higher due to inflation. Therefore, financial statements that only use historical values can provide a misleading picture of a company's financial health (Kieso, Weygandt, & Warfield, 2019). In this context, inflation accounting seeks to provide the necessary adjustments so that financial statements reflect more accurate and relevant values (Sinaga, Muda, & Silalahi, 2020). This can be done through adjustments for inflation, which involve re-measuring assets and liabilities based on relevant price indices. In doing so, companies can better make strategic decisions based on more accurate information (Schroeder, Anggraeni, & Weber, 2019).

A real-life example of the application of inflation accounting can be seen in companies in Venezuela, where inflation has reached very high numbers. In that country, many companies have started to apply inflation accounting methods to adjust their financial statements to the existing economic conditions. This helps them to stay relevant in the market and provide more accurate information to stakeholders (World Bank, 2021). The importance of inflation accounting is increasing as global economic uncertainty increases. With the financial crisis, commodity price fluctuations, and political uncertainty, companies need to have accounting systems that can adapt quickly to changing economic conditions. Therefore, a deep understanding of inflation accounting is essential for accountants and financial managers around the world (Hendriksen & van Breda, 1992).

Inflation accounting measurement methods. In inflation accounting, there are several methods that can be used to measure the impact of inflation on financial statements. The two main methods that are often used are the price index measurement method and the replacement cost measurement method. The first method, namely price index measurement, uses the consumer price index (CPI) or producer price index (PPI) to adjust the value of assets and liabilities. This method is considered simpler and easier to apply, especially in the context of moderate inflation (FASB, 1980). For example, if a company has inventory purchased last year for Rp10 million and the price index last year was 100, while the current price index is 120, then the value of the inventory needs to be adjusted to Rp 12 million. This adjustment provides a more accurate picture of the value of the inventory that can be expected to be sold in the current market (Kieso et al., 2019). The second method, namely measurement based on replacement cost, requires companies to revalue assets and liabilities based on the cost required to replace them today. This method is more complex and requires more detailed data, but it can provide more accurate information about the market value of assets and liabilities (Schroeder et al., 2019). For example, if a company owns a building that was purchased ten years ago, the current market value of the building may be much higher than its historical value. By using the replacement cost method, the company can calculate the cost required to build a similar building today. Some other alternative methods that are related to the inflation accounting measurement method are:

- Current Cost Accounting Method: This method maintains the units of measurement but deviates from the historical cost model.
- General Price Level Accounting Method: This method changes the unit of measurement but maintains the reporting model based on historical cost.

However, the application of inflation accounting measurement methods is not always without challenges. One of the main challenges is the availability of accurate data. In some countries, especially developing countries, price index data may not always be available or reliable. In addition, companies must also consider how to adjust their financial statements without compromising the consistency and comparability of financial statements from year to year (Hendriksen & van Breda, 1992). In addition, the application of inflation accounting also requires a good understanding of the impact of inflation on various aspects of the business. For example, companies need to consider how inflation can affect operational expenses, revenues, and cash flow. Therefore, it is important for companies to have a team of accountants who are trained and experienced in implementing inflation accounting methods to ensure that the financial statements produced are reliable and relevant (FASB, 1980). In conclusion, inflation accounting is an important tool for companies to adjust their financial statements to changing economic conditions. By understanding the basic concepts and existing measurement methods, companies can better provide accurate information to stakeholders and make better strategic decisions amid economic uncertainty.

Reliability of Financial Reports

Definition and criteria of reliability. The reliability of financial statements is one of the important aspects in accounting that determines how well the statements can be trusted by stakeholders, such as investors, creditors, and company management. According to the International Accounting Standards Board (IASB), the reliability of financial statements is determined by several criteria, including faithful representation, free from material errors, and not misleading (IASB, 2018). In this context, reliable financial reports must accurately reflect the financial condition and operating results of the company, thereby enabling stakeholders to make informed decisions. Reliability criteria also include aspects of relevance and consistency. Relevance means that the information presented in the financial statements must be able to influence the economic decisions of users. Meanwhile, consistency refers to the use of the same accounting principles from period to period, thus facilitating comparison. For example, if a company uses the straight-line depreciation method in the first year, then the same method must be applied in subsequent years to maintain the consistency of the report.

However, in an inflationary situation, the reliability of financial statements can be significantly affected. Inflation can cause distortions in the value of assets and liabilities, which in turn can affect the accuracy of the information presented. For example, if a company does not adopt its financial statements to reflect changes in the value of money due to inflation, then the statements may not reflect the true financial condition. This shows that the application of inflation accounting is very important to maintain the reliability of financial statements in unstable economic conditions. From the perspective of users of financial statements, reliability also includes transparency and openness of information. Users should be able to understand how the figures in the financial statements were calculated and what assumptions were used. In the context of inflation, it is important for companies to disclose the accounting methods used in inflation adjustments so that users can better assess the reliability of the statements. For example, companies operating in countries with high inflation rates should explain how they adjust the value of fixed assets and inventory.

In conclusion, the reliability of financial statements is not only determined by the accuracy of the figures presented, but also by transparency and consistency in presenting information. In inflationary conditions, the application of inflation accounting becomes crucial to ensure that financial statements remain reliable and provide an accurate picture of the company’s financial condition.

Factors affecting the reliability of financial reports. There are various factors that affect the reliability of financial statements, especially in the context of inflation. One of the main factors is the accounting policies implemented by the company. Companies that adopt appropriate and current accounting principles tend to have more reliable financial statements. For example, companies that apply international accounting standards (IFRS) are often better able to adjust their financial statements to reflect changing economic conditions, including inflation. Another factor that affects reliability is the quality of the internal control system. A strong internal control system can help prevent errors and fraud in the presentation of financial statements. A study shows that companies with good internal control tend to have more accurate and reliable financial reports. In the context of inflation, effective internal control can also help companies make appropriate adjustments to the value of assets and liabilities.

In addition, management competence and integrity also play an important role in determining the reliability of financial reports. Management that has adequate knowledge and experience in accounting and finance tends to be more capable of preparing accurate and transparent financial reports. Conversely, management that is less competent or does not have integrity can cause distortion in financial reports, especially in complex inflation conditions (Abbott, Daugherty, Parker, & Peters, 2016).

External factors, such as government regulations and the economic environment, can also affect the reliability of financial statements. For example, changes in tax regulations or monetary policy can affect the way companies prepare their financial statements. In an inflationary environment, tight monetary policy can affect a company's liquidity and, in turn, affect the accuracy of financial statements. Thus, the reliability of financial statements is influenced by various factors, both internal and external. In the face of inflation, it is important for companies to pay attention to all these factors and implement appropriate accounting practices to ensure that their financial statements remain reliable and provide accurate information to stakeholders.

Relationship Between Inflation and Financial Reports

Impact of inflation on assets and liabilities. Inflation has a significant impact on a company's financial statements, especially in terms of assets and liabilities. In conditions of high inflation, the real value of fixed assets can depreciate, while outstanding liabilities may not be directly affected. For example, in financial statements prepared without taking inflation into account, the value of fixed assets such as property and equipment may appear stable, even though their real value has decreased. This shows the importance of companies implementing inflation accounting so that financial statements reflect the actual economic conditions. In the context of liabilities, inflation can cause changes in borrowing costs. When interest rates rise in response to inflation, the cost of debt for companies also increases. This can put pressure on the company's cash flow and profitability. For example, a company with long-term fixed-rate debt may feel "lighter" at first, but as inflation rises, the real cost of that debt can become more expensive. Data from Bank Indonesia (2021) shows that during periods of high inflation, many companies have difficulty meeting their liability obligations, which ultimately impacts their business continuity.

In addition, inflation also affects the measurement and reporting of assets and liabilities in financial statements. In conventional accounting, assets are recorded based on historical costs, which can become irrelevant in inflationary conditions. The application of inflation accounting, such as the revaluation method, can provide a more accurate picture of the value of assets and liabilities. However, the implementation of inflation accounting is not without challenges. Many companies face difficulties in collecting the data needed to revalue assets and liabilities. Limitations in accounting information systems and a lack of understanding of inflation accounting principles can hinder effective implementation. Therefore, it is important for companies to invest in training and development of information systems that support the implementation of inflation accounting. Overall, the impact of inflation on assets and liabilities is very complex and requires special attention in the preparation of financial statements. The application of inflation accounting can help companies overcome this challenge and provide more accurate information to stakeholders.

The effect of inflation on income and costs. Inflation also has a significant impact on a company's revenue and costs. When inflation increases, the cost of raw materials and labor tends to increase, which in turn can affect the company's profit margin. This shows that companies must be able to manage costs effectively in order to maintain profitability amidst inflationary conditions. In addition, inflation can also affect consumer purchasing power. When the price of goods and services increases, consumers may reduce their spending, which has an impact on company revenues. A report from the Central Bureau of Statistics (BPS) shows that during periods of high inflation, the growth of public consumption tends to slow down, which has a negative impact on company revenues. Companies that are unable to adjust the selling price of their products to the inflation rate may experience a significant decline in revenue.

The application of inflation accounting can help companies anticipate the impact of inflation on revenue and costs. By using the price adjustment method, companies can adjust the selling price of their products to remain competitive in the market. However, companies must also be careful in setting the selling price of their products. Price increases that are too high can risk reducing demand, while increases that are too low can erode profit margins. Therefore, it is important for companies to conduct in-depth market analysis and consider the elasticity of demand when setting prices. Overall, the impact of inflation on a company's revenue and costs is very significant and requires the right strategy to manage it. The application of inflation accounting can help companies plan and make better decisions in facing the challenges of inflation.

Methods

This study uses a qualitative approach with a descriptive method that aims to explain the characteristics of the phenomenon through data collection, data organization, recording, and data classification. The data sources used were obtained from the official website of Bank Indonesia, the Central Statistics Agency portal, and a literature review of previous research results. This study analyzes the implementation of inflation accounting using the General Price Level Accounting (GPLA) and Current Cost Accounting (CCA) approaches.

- Financial Statement Adjustment Process

Adjustment of financial statements from historical cost basis to reports adjusted to general price level accounting. This process involves adjusting nominal values using relevant price indexes to reflect the true purchasing power of the currency.

- Current Cost Accounting System Evaluation

This study also conducts a comprehensive assessment of the implementation of the Current Cost Accounting system, including an analysis of the mechanism for measuring the current value of assets and liabilities, the Adjusted Profit Recognition Procedure, the Presentation of Additional Financial Statements as a complement to the main report, and the impact of implementation on decision making in business entities.

Result and Discussion

Result

The accounting of inflation, an accounting method used to generate data that accounts for the magnitude of price fluctuations, is called inflation accounting. There are various concepts that can be used when presenting financial data about price changes brought on by inflation, including:

- The concept of current cost accounting. Although this approach departs from the historical cost model, it keeps the unit of measurement.
- The broad concept of price level accounting. While keeping the reporting model based on past acquisition costs, this idea modifies the unit of measurement.

General price level accounting concept. This concept assesses money according to its purchasing power on goods and services in general. The purpose of this concept is to maintain the value of capital according to its fixed price, with the measure of the price index. The value of assets, liabilities, and capital affected by price changes are adjusted by the price index factor, so that they can be expressed with the same monetary value. Financial reporting using the inflation accounting concept is not governed by the Indonesian Accounting Principles (PAI) in its entirety. The idea of relevant value is used by PAI as an alternative assessment for some things, such as inventory items and securities (short-term investments). Although this isn't always the case, the application of the applicable value is always linked to circumstances in which the relevant asset's price drops below its purchase price rather than rising. In contrast, PAI refers to the use of the basis of conservatism in financial reporting when presenting the value of fixed assets, rather than the idea of applicable value in connection to price increases. The typical trend, which shows price increases rather than decreases, is in contrast to this. In the principles of Indonesian accounting, it is explained that financial statements are balance sheets and profit and loss calculations and all information contained in the appendices, including reports on sources and uses of funds. In general, the main elements of financial statements consist of balance sheets, profit and loss statements, and statements of changes in capital, or retained earnings statements. However, in practice, to further explain to users of financial statements, other reports are often included, such as statements of changes in working capital, statements of sources and uses of cash, and others. To find out the company's performance, investors usually use the company's financial statements published on the capital market so that investors can make the right decisions in investing.

In addition to investors, those who need financial reports are company owners, suppliers, creditors, management, government, and other members of the community. The information contained in the financial report is considered to have information quality value if it meets two elements, namely reliable and relevant to users of the financial report. Therefore, financial reports can be used as a means of communication with parties interested in the company's financial data, and that is why it is often referred to as the language of business. So the financial report consists of two main reports, namely the balance sheet, showing the company's financial position which includes assets, liabilities, and capital at a certain time and the income statement, presenting the company's business results which include income and expenses incurred as a result of achieving goals in a certain period. So by using any assessment method, inflation will still result in costs for materials and finished goods. Therefore, the company needs to increase the amount of funds for working capital as additional inventory value such as in cash and receivables. However, in this case, the inventory of goods does not experience a decrease in exchange rate like the cash balance and receivables, even during this inflation period the inventory of goods has the hope of increasing its exchange rate.

Impact of inflation.

- Depending on how severe it is, inflation can have both beneficial and bad effects. Mild inflation actually helps the economy by raising national income and encouraging individuals to work, save, and invest. However, in periods of extreme inflation, namely when unchecked inflation (hyperinflation) takes place, the economy struggles and appears to be moving slowly. Due to the quick rise in prices, people lose interest in working, saving, investing, and producing. The lifestyles of those who get fixed incomes, such as private workers or civil personnel, will gradually worsen as they are unable to keep up with the rising costs.

- If income is greater than the rise in production costs, inflation may be advantageous to producers. In such a scenario, producers will be incentivized to double their output, which is typically the case for major businesses. On the other hand, producers will be unwilling to continue producing if inflation drives up production costs until they eventually hurt them. Manufacturers have the option to temporarily halt manufacturing. Even if they are unable to keep up with the rate of inflation, the producer's business may go bankrupt, this usually happens to small businesses.
- Generally speaking, inflation can lead to a country's investment, interest rate hikes, speculative investment, lack of development, economic instability, balance of payments imbalances, and a drop in public welfare and living standards.

Benefits of inflation accounting for management. The benefits of applying inflation accounting for presenting information to management applied by N. V. Philip in the Netherlands are:

(1) Create more effective working capital management,

(2) Produce a more realistic production profitability analysis,

(3) Pay greater attention to the value of larger amounts of money,

(4) Better management of tangible assets,

(5) Better pricing.

Current cost accounting concept. There are several applicable cost accounting concepts, namely:

(1) capitalisation, or the existing approach,

(2) the current entry price,

(3) the current exit price, and

(4) a mix of these three approaches.

In summary, the three concepts are as follows.

Capitalization method. The capitalization method determines the economic value of an asset, group of assets, or total assets is the sum of the discounted value of the estimated cash flows from the asset in question in the future during its economic life. The present value of an asset can be calculated by:

$$P_0=\Sigma(I+i)jnJ=2P_1=\Sigma R_j(I+i)j-1nJ=2I_1=(P_1-P_0)+R_j$$

where:

P_0 = Current value of assets or capitalization value at time 0

P_1 = Current value of assets or capitalization value at time I

I_1 = First year income

R_j = Expected net cash flow in period j

i = Appropriate discount rate

n = Remaining useful life of assets

When using the capitalisation method approach, annual income is calculated as the difference between the company's total value at the end of the period and the assets' capitalised value at the start of the period. When the cash flow for the relevant period is added to the present value of the assets at the end of the period, the total worth of the company at the end of the period is the result. The income generated is income according to the economic concept, which is income that should be obtained. Meanwhile, income according to the accounting concept is the difference between the income realized from transactions in a period and the costs associated with that income. In this case, a reconciliation can be carried out between economic income and accounting income, namely by adding accounting income to changes in tangible assets that occurred in the previous period and adding changes in intangible assets from a period transaction with costs related to the income. In this case, reconciliation can be carried out between economic income and accounting income, namely by:

Economic income: *Accounting income + Changes in tangible assets realized in the previous period + Changes in the value of intangible assets*

Balance sheet item adjustment process. Balance sheet items are adjusted on the basis of current cost by simply replacing historical values with current cost. Monetary items are stated according to nominal. There is no adjustment to the opening balance as these items are not stated at constant prices but at current cost. Non-monetary items, such as inventories, equipment, buildings, machinery, and other fixed assets are stated at their current cost (at the time of financial reporting). Share capital is not adjusted because changes in purchasing power are not taken into account. While retained earnings can be calculated by obtaining the difference between assets minus debt and capital. Retained earnings can also be calculated by adding the opening balance to profits according to current acquisition prices minus cash dividends distributed during the current period.

Adjustment of profit and loss items. The income statement stated on the basis of current acquisition cost presents three types of income, namely operating profit or loss, realized profit or loss, and unrealized profit or loss. The sales item, in the income statement shows the current acquisition value, so it does not require adjustment. Likewise, general and sales administration costs paid in cash by the company, and income taxes, have been stated according to the applicable acquisition cost. The cost of goods sold must be adjusted from the historical acquisition cost basis to the current acquisition cost. Depreciation costs are costs incurred during the reporting period, so they must be calculated according to the average balance of the current acquisition cost.

Application of general price level accounting concept. According to Raihi-Belkaoui (2007), GPLA method is proof that the real value of the rupiah is determined by goods or services commonly called purchasing power. This concept assesses money according to its purchasing power on goods and services in general. The purpose of this concept is to maintain the value of capital according to its fixed price, with the measure of the price index. The value of assets, debts, and capital affected by price changes are adjusted by the price index factor, so that they can be expressed with the same monetary value.

With the formula:

General Price Level Accounting (GPLA) = Historical Value × Conversion Factor

Current cost accounting method. This concept assesses money according to its purchasing power on goods and services in general. The purpose of this concept is to maintain the value of capital according to its fixed price, with the measure of the price index. The values of assets, liabilities, and capital affected by price changes are adjusted by the price index factor, so that they can be expressed with the same monetary value. To present the value of fixed assets according to a constant rupiah value, an adjustment is made with the price index factor.

Current Cost Accounting (CCA) = Historical Value × Conversion Factor

Table 1
Inflation Data and Its Effects

Year		In Rp 1 Million	Accumulation
2015	3.35%	Rp 1,033,500	3.35%
2016	3.02%	Rp 1,064,712	6.47%

2017	3.61%	Rp 1,103,148	10.31%
2018	3.13%	Rp 1,137,676	13.77%
2019	2.72%	Rp 1,168,621	16.86%
2020	1.68%	Rp 1,188,254	18.83%
2021	1.87%	Rp 1,210,474	21.05%
2022	5.51%	Rp 1,277,171	27.72%
2023	2.61%	Rp 1,310,506	31.05%
2024	1.57%	Rp 1,331,081	33.11%
Rate-rate	2.91%	Accumulation	33.11%

Discussion

At the beginning of each month, various fundamental domestic economic data are released by the government. Be it inflation data, exports, imports, and Indonesia's trade balance. One important data that often gets attention is inflation data. In Indonesia, inflation occurs more often, unlike other countries such as Japan which tends to experience continuous deflation in the long term. Why does inflation occur more often in Indonesia? In the MoF (Fiscal) news (2015), the Central Statistics Agency (BPS) noted that inflation occurred at 1.07 percent in January 2015. Inflation occurred with a Consumer Price Index (CPI) of 110.99. Based on several definitions put forward above, it can be said that in general inflation is a symptom of a continuous increase in prices for a number of goods. A temporary increase is not called inflation and a price increase for one type of commodity is also not called inflation. Inflation is a continuous increase in general prices, which is one of the important macroeconomic variables, because it can affect the welfare of a country's population. High inflation implies a decrease in purchasing power so that the ability of the community to enjoy goods and services is reduced, in other words, prosperity is reduced. Pratama and Mandala (2001, p. 203) outline three requirements that must be fulfilled for inflation to be considered to have occurred: (a) price increase: a commodity's price is considered to have increased if it surpasses its price from the previous period; (b) general in nature; a commodity price increase cannot be considered inflation if it does not result in a general price increase; and (c) continuous; a general price increase will not result in inflation if it only lasts for a brief period of time; for these reasons, inflation calculations are conducted over a minimum of several months. The monetary authorities in charge of controlling inflation must give it careful consideration because it has a significant impact on the state of the economy. Economic decisions about pricing, wages, investment, and consumption are all impacted by inflation. Inflation impacts the economy either directly or indirectly as a result of these choices. If the public perceives high inflation, it will affect the economy as a whole. Therefore, it is necessary to know how much influence inflation has on the level of the economy. In this regard, policy makers in countries around the world are trying their best to control inflation. So the definition of inflation that needs to be underlined is: the tendency of prices to increase over a certain period of time, where the price increase does not only occur once but continuously over a long period of time, the price level is the price of goods in general, not just the price of one type of goods. In general, inflation will affect all economic activities including investment issues. To find out the company's performance, investors usually use the company's financial statements published in the capital market so that investors can make the right decisions in investing.

The end product of accounting, which is a summary of financial activities, is financial statements. In order to assist management in making decisions, financial statements are intended to give information on the state of capital, liabilities, and assets as well as the acquisition of profits or losses that demonstrate the outcomes of operations that take place in the company's household. Financial statements can be divided into two primary categories: income statements and balance sheets. The balance sheet is a report that displays the company's financial status at a specific point in time. While the income statement is a report that contains information about the profits or losses experienced by the company in a certain period. A number of studies on the use of the constant price concept to correct for inflation-related changes in the value of financial report items, including one by Professor Hadibroto in (Inflation Accounting), conclude that the idea is useful for financial reporting. So it is necessary to review the importance of the inflation accounting concept applied in the presentation of financial reports for the reliability of information in the financial reports. In times of high inflation, companies must consider price increases in short-term profit planning. Mistakes in calculating the effects of inflation can result in cash shortages, liquidity problems, and depreciation. Liquidity problems can be overcome if companies plan well to obtain profits that are balanced with the inflation rate that occurs.

Conclusion

The discussion chapter's investigation revealed that the historical cost approach was used on average in Indonesian enterprises' financial statements. The information in the financial statements that is highly significant and pertinent is the only information that this method preserves. The only values that are described by the historical method are the present and future. Therefore, when management is making decisions during periods of inflation or deflation that indicate a propensity towards rising prices, knowledge derived from historical values is less important. The GPLA and CCA techniques are two of the many ways that businesses can communicate information about inflation circumstances. Inflation, specifically GPLA and CCA, happens.

Only changes in the value of the financial statement profit are displayed by the GPLA approach. The financial statement's profit has demonstrated its true value. The CCA approach, on the other hand, is just offered as an extra financial report that can help the business. This strategy ignores tax considerations and simply maintains the company's physical capital, viewing profit as the quantity of resources that may be transferred over a specific time period. Every component of the balance sheet, including cash, receivables, inventories, fixed assets, debt, and equity, can have its value impacted by high rates of inflation. So, in order to clearly analyse the company's financial health, financial statements need to be accurate. In comparison to alternative accounting methods that do not account for inflation in financial statements, companies who employ inflation accounting generate better financial statements. The historical cost basis is still used by retailers, but it is undeniably less effective than inflation accounting.

The problem of companies in Indonesia that are still unfamiliar with inflation accounting causes no method to be applied in adjusting to the increasing inflation rate every year. Because there is no indication of the real amount recorded, financial accounts are impacted, particularly when inflation accounting measures are not employed. Businesses must therefore make adjustments to their financial statements in order to display correct results. Therefore, data that are not adjusted for inflation do not mislead businesses. Additionally, this helps businesses make wise decisions. In the end, the data in the financial statements need to be legitimate, accurate, and trust-worthy.

References

Abbott, L. J., Daugherty, B., Parker, S., & Peters, G. F. (2016). (2002). Internal audit quality and financial reporting quality: The joint importance of independence and competence. *Journal of Accounting Research, 54*(1), 3-40. doi:10.1111/1475-679X.12099

Bank Indonesia (BI). (1998). *Statistik Ekonomi dan Keuangan Indonesia (SEKI).* Jakarta: Bank Indonesia.

FASB. (1980). *Statement of financial accounting concept No. 2: Qualitative characteristics of accounting information*

Hendriksen, E. S., & van Breda, M. F. (1992). *Accounting theory* (5th ed.). Burr Ridge: Irwin Professional Publishing.

IASB. (2018). *Conceptual framework for financial reporting conceptual framework at a glance*. IFRS Conceptual Framework Project Summary.

International Accounting Standard Committee (IASC). (1989). *Framework of the preparation and presentation of financial statements.* London: UK-IASC.

Kieso, W. D., Weygandt, J. J., & Warfield, T. D. (2019). *Intermediate Accounting* (17th ed.). Hoboken: John Wiley & Sons.

Kieso. (2020). *Intermediate accounting: IFRS edition* (3rd ed.). Hoboken: John Wiley & Sons Inc.

Mishra, S. (2018). *4 metode akuntansi tingkat harga.* Teknik: Analisa keuangan.

Nasution, A. R., Arismunandar, M. F., Muda, I., Soemitra, A., & Sugianto, S. (2024). Analysis of the effect of unemployment inflation and population on poverty (data study of North Sumatra Province). *Journal of Economic and Business Studies, 7*(4), 1-4. Retrieved from https://doi.org/10.36266/JEBS/230

Prathama, R., & Mandala, M. (2001). *Teori Ekonomi Makro: Suatu Pengantar.* Jakarta: Lembaga Penerbit Fakultas Ekonomi UI.

Raihi-Belkaoui, A. (2007). *Accounting theory* (5rd ed.). Jakarta: Salemba Empat.

Rapu, S., Gaiya, B., Eboreime, M., Nkang, M., Audu, N., Golit, P., & Okafor, H. (2016). Eksplorasi kuantitatif dari pendorong inflasi di Nigeria. *Tinjauan Ekonomi dan Keuangan, 54*(2), 1-21.

Schroeder, P., Anggraeni, K., & Weber, U. (2019). The relevance of circular economy practices to the sustainable development goals. *Journal of Industrial Ecology, 23*(1), 77-95. doi:10.1111/jiec.12732

Sinaga, J. S, Muda, I., & Silalahi, A. S. (2020). The effect of BI rate, exchange rate, inflation and third party fund (DPK) on credit distribution and its impact on non-performing loan (NPL) on XYZ commercial segment bank. *Universal Journal of Accounting and Finance, 8*(3), 55-64. doi:10.13189/ujaf.2020.080301. Retrieved from http://www.hrpub.org/download/20200830/UJAF1-12217001.pdf

Sugiarti, W. (2012). *Akuntansi inflasi.*

World Bank. (2021). *A World Bank group flagship report: Global economic prospects.* Washington, DC: World Bank.