ANALYSIS OF THE SOCIAL IMPACT OF INFLATION IN TERMS OF THE QUALITY OF ACCOUNTING INFORMATION

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Abstract: *The reality of the current economic and social environment highlights the increasing manifestation of the inflationary phenomenon. Although inflation is essentially seen as an economic phenomenon, it should not be forgotten that its multiple effects also have a strong social impact as a result of the decline in general purchasing power. In this context, and given the social role of accounting, aimed at satisfying the public interest, our study will analyse the impact of inflation on the quality of accounting information and highlight the main social consequences of the negative influence on the quality of this information. In order to achieve this general objective, using the technique of critical reasoning, on the one hand, we will highlight, for each major component of the assets of an economic entity, the negative influences that the phenomenon under analysis induces in terms of information, and on the other hand, we will highlight the social consequences that this process generates. The conclusions of the research undertaken will highlight the fact that, in the absence of appropriate accounting techniques adapted to inflation, we are witnessing a dilution of the quality of the financial communication process, as well as an impairment of the contribution of accounting to human progress by providing the necessary prerequisites for the healthy development of the entities it serves*.

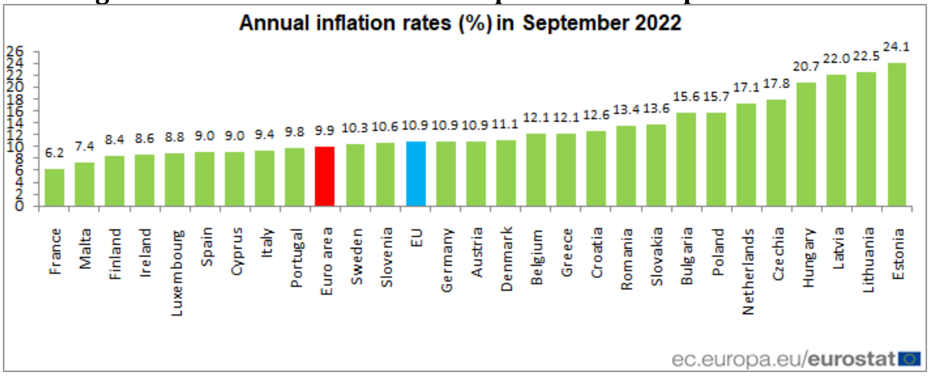
Keywords: inflation, social impact, public interest, quality of accounting information, sustainable development

1. Introduction

Over the last three years, human society has faced, and continues to face, a series of crises that have a profound social impact. In this context, we refer to the pandemic crisis, the economic crisis, the energy crisis and the crisis caused by the armed conflict in full swing in the immediate vicinity of our country. In addition to all these crises, as a result of them, we are also facing a crisis caused by the alarming spread of inflation.

We can see an alarming increase in the inflation rate, which is at its highest level for 20 years. (https://www.bursa.ro/rata-inflatiei-la-cel-mai-ridicat-nivel-din-ultimii-20-de-ani-45010747). This increase is generalised, in the sense that it is not just local, in certain national economies, but regional, even global. The rapid rise in inflation rates during 2022 can also be seen at EU level, with Member States facing the same phenomenon, even if the rates reported by each Member State differ.

Figure 1 Inflation rates in the European Union - September 2022



Source: https://ec.europa.eu/eurostat/documents/2995521/15131946/2-19102022-AP-EN.pdf/92861d37-0275-8970-a0c1-89526c25f392

Against this background, which highlights a deterioration in macroeconomic conditions, we will carry out an analysis of the social impact of inflation, but from a particular perspective, which aims to affect the quality of information provided by accounting as a social science.

Our analysis focuses on the social impact that inflation produces at the microeconomic level, as a result of the diminishing role that accounting plays as a social tool through the efficient distribution and use of economic resources.

Beyond the predominantly economic significance of the phenomenon that is the subject of our study, we believe it is also important to investigate the social effects that inflation can generate and, moreover, the way in which economic and social aspects are intertwined.

2. Objectives of the study

The literature highlights a number of shortcomings of historical cost accounting, whereby items shown in financial statements are reflected at their original value at the time of the transaction in which they are involved.

Thus Ebiaghan (2019) believes that fluctuations in general price levels, can present financial information in a false and misleading manner, thus calling into question its value relevance and decision usefulness.

On the other hand there are specialists (Olarewaju, Mbambo and Ngiba, 2020) who believe that high inflation prevents financial statements, based on historical cost requirements, from creating financial information that would be comparable and understandable to the business.

Another shortcoming that historical cost accounting generates is also captured by Thies & Sturrock (1987), who find that historical costing overstates profitability during a period of rising prices, and financial ratios based on historical costs often grossly misrepresent the relative financial strength of firms.

Other authors (Bello, 2010) consider that although historical cost accounting has proved reasonably satisfactory during periods of relative price stability, however, in the absence of price stability, which is often the case in many countries, the value of accounting information as a practical language of economics may be lost and its relevance to decision making impaired.

Also in this context, we believe that another point of view should be mentioned (Naim, 2022), which argues that financial statements are instruments of an enterprise that reflect the financial position and results of functions and, if prepared by enterprises in periods of high inflation, do not reflect the real financial position and results of operations. In addition, the capital of companies will be reduced because taxation will be levied on fictitious earnings in periods of high inflation.

Thus, using the views expressed in the literature as a starting point, we propose the following main objectives of our study:

1. to highlight in an analytical and critical manner the effects that inflation has on all asset structures represented from an accounting point of view through the balance sheet and to determine the impact it has from the perspective of affecting the quality of accounting information, which will allow us to validate or refute various opinions found in the literature;
2. to establish the social consequences of the reduction in the quality of accounting information in an inflationary context;
3. to give an argued view on how, in an inflationary environment, accounting can still perform its social function.

3. Research method

The research method used in our approach is based on several procedures, among which a decisive role is played by the technique of critical reasoning, aimed at analysing the impact that the historical cost principle, frequently used in accounting, has on the quality of accounting information in an inflationary environment.

In addition, in order to make our conclusions more relevant, we will supplement the methodological tools used with other methods, among which observation, analysis and comparison can be considered representative.

In order to achieve the proposed objectives, we will subject to a detailed critical analysis all the asset structures which are represented in the accounts by virtue of the historical cost principle, and we will highlight the negative or positive way in which inflation acts on the process of accounting representation of economic reality and financial communication.

The findings of this analysis will allow us to determine the influence of inflation on the quality of accounting information, the extent to which accounting still fulfils its social role, and the social impact of the process of reducing the quality of accounting information.

4. The significance of the social role of accounting

As society has evolved and economic activities have become increasingly complex, accounting has been given a role whose significance has also experienced an upward dynamic which has sought to keep pace with the evolving meaning of society as a whole.

Thus, the main roles assigned to accounting over time have been threefold, essentially presenting it as an activity aimed at reflecting the economic activity of the enterprise, a tool for informing and assisting decision-making and, more recently, as an instrument of social intermediation.

Approached from the point of view of its role as an instrument of social intermediation, we see that the other two roles, measuring economic activity and informing and assisting decision-making, are secondary, while the consequences that accounting information has on the social environment are highlighted in the foreground.

In practice, from this perspective, it is realised that the choice and application of a particular accounting policy has particularly important consequences for the redistribution of wealth and risks between the various participants in economic life.

In our opinion, the social role of accounting should be considered a priority, as it offers the possibility of establishing the criteria according to which the reality is reflected and the various categories of users are informed in order to achieve the desired economic and social effects.

We note, therefore, that the social role of accounting and the impact it has on the social environment is determined in a specific, particular way, by reference to the many beneficiaries of the information provided by accounting and not specifically in terms of a direct and immediate effect on the individual as a member of society.

The social role of accounting brings into question the direct interaction between it and the public, represented by all the parties interested in the information it produces (managers, investors, creditors, employees, the state, etc.), hence the role assumed by accounting aimed at satisfying the public interest.

5. The influence of inflation on the quality of accounting information

5.1. Quality of accounting information on enterprise assets under inflationary conditions

The historical costing of asset structures in inflation-dominated economies has a range of effects on the enterprise as an economic entity, both in terms of the actual conduct of operating activities and in terms of the quality of the accounting information relating to them.

For intangible assets, accounting and tax rules provide that they may be depreciated over a maximum period of three to five years or over the operating period, as appropriate, and are recorded in the accounts at their book value expressed in the purchasing power of the currency at the date of their acquisition. In this context, it should be noted that while, in the case of start-up costs and software, their value can be recovered through amortisation over a single financial year, the same cannot be said of development costs, concessions, licences, patents, etc. which, as a rule, have considerable values which have to be amortised over several financial years. We believe that this judgement can be extended to certain more complex IT applications which, especially for small and micro-enterprises, have a considerable value requiring amortisation over several financial years.

It can therefore be said that, in a context of galloping inflation, the recovery of the book value of intangible assets by means of amortisation over more than one financial year leads to an overstatement of profit as a result of the recording of depreciation which is eroded in value. At the same time, we note the influence of intangible assets on the quality of the information provided in the financial statements as a result of the non-recovery of the historical cost in a single financial year, since these items appear in the balance sheet at their residual value, which is expressed in historical purchasing power at the time of entry into the company.

As far as land is concerned, the influence of inflation can be summarised as follows:

- on the one hand, as the entry value can only be discounted on the basis of legal rules, there is a risk that for long periods of time the land owned by the company appears in the balance sheet at values that no longer express the current purchasing power, thus affecting the quality of financial reporting;
- on the other hand, the sale of the land at the market value at the date of transfer results in the recording of substantial favourable differences between the higher sale price and the lower entry value, but this difference is only the effect of inflation and not the result of a real increase in value, which is why recording it as income and not as equity artificially increases the tax base, leading to the payment of additional corporation tax.

One of the most exposed categories of items in terms of inflation is tangible fixed assets. Accounting for them under historical cost gives rise to a number of negative influences, which are mainly twofold:

- on the quality of the information presented in the financial statements;
- a drastic reduction in the role of depreciation.

With regard to the first category of consequences, it should be noted that if the book value is maintained as at the date of entry into operation, i.e. without being discounted, the total balance sheet value of fixed assets is obtained by the accumulation of heterogeneous values, expressed in purchasing power specific to different times. This has an impact, firstly, on the balance sheet valuation carried out by taking into account the value of the remaining assets, which, on the one hand, is not discounted and, on the other, is very heterogeneous, and, secondly, on the quality of the structural analysis of the balance sheet, which has a direct impact on the formation and distribution of results.

In the case of own-account fixed assets, which take a longer period of time to complete, we consider that the values with which they are recorded in the accounts following completion and acceptance are also heterogeneous, since they are the result of consumption carried out in different periods, characterised/expressed in currency with different purchasing power, which would require the completed investment to be discounted to market price by making corrections to take account of the purchasing power at the date of acceptance.

With regard to the issue of depreciation of tangible fixed assets, we note the disadvantage resulting from the calculation and recording of undervalued depreciation, the consequences of which are that it is impossible to carry out simple and, even more so, extended depreciation, and that the tax base increases, which has a direct negative impact on equity. In the same context, we also note that the sale of tangible fixed assets, if they are not revalued, raises the issue of the differences between the higher selling price, represented by the market value, and the lower net book value, which leads to the same overvaluation of results due to the recording of these differences as income.

In analysing the result of the effect of inflation on fixed financial assets, we consider that both the influence of acquisition/disposal operations and those which have a certain influence on the balance sheet and profit and loss account should be taken into account.

Firstly, we believe that the phenomenon leading to the recording of similar values but expressed in different purchasing power should be highlighted, given that we are referring to the existence of organised markets. We believe that this phenomenon can be better illustrated by using the following example: suppose that on date "n" the company buys 3,500 "X" shares at a price of 1000 lei/share; on date "n+1" (considering the time interval between moments "n" and "n+1" to be at least of the order of several calendar months) the company buys another 10,000 "X" shares at the same price.

Thus, the company's accounts at time "n+1" will record the entry of shares acquired at the same price but expressing a reduced purchasing power, the greater the difference, the greater the time between the two points in time.

Secondly, the proceeds recorded on the disposal of assets are in fact realised on account of the failure to carry out the revaluation and in reality express a loss of purchasing power. In this respect, we assume that the company sells at time "n+2" shares "X" at a price of 1700 lei/share, in relation to which we note that the longer time elapsed until the date of sale leads to a greater loss of purchasing power, which leads us to state that there is a mismatch between the input values and the market prices. In this situation we consider that the transfer of the income from the disposal to the profit and loss account and not to the balance sheet negatively influences the correctness of the information on the results obtained by the company, resulting in a disadvantage for the company from a tax point of view.

A favourable influence can be seen in the case of payments to be made for financial fixed assets, since their value is affected by inflation, the greater the gain in purchasing power, the greater the time between the time of recording and the time of the actual payment.

In the opposite direction we mention fixed assets, since the loss of purchasing power of the currency over time influences the real value of the claims recovered, an eloquent example being long-term loans.

In the case of fixed assets in course of construction, particularly tangible fixed assets, it can be seen that, due to the incorporation, during the investment process, of values expressed in different purchasing powers into the cost of the asset, especially in the case of investments with a long period of completion, their receipt and recording in the accounts, following completion, are carried out at lower entry values. In other words, in our opinion, the amount of the actual historical cost of investments does not give a true picture and does not correspond to the value at the time of acceptance of the objective.

For their part, current assets in the form of inventories and work in progress have certain particularities, which is why the analysis of the influence of inflation on them also requires greater attention. In our opinion, it should be pointed out at the outset that the turnover rate of stocks is a very important factor in inflationary conditions, as its increase, in the context of profitable activity, considerably reduces the negative effects of this phenomenon.

As far as stocks of raw materials, consumables and inventory items are concerned, supply and consumption are the two moments at which inflation can have an impact. The longer the interval between two supplies and two consumptions, the greater the influence of inflation, since:

- the final balance of the accounts tracking the movement of these items accumulates heterogeneous values and is significantly influenced by the method used for the valuation at the end of management;
- as supplies are made at different prices, costs will be affected by non-homogeneous values, which means that the results shown in the profit and loss account will be influenced;
- if the turnover rate is low and stocks are oversized, the information provided by the balance sheet on these structures reflects values expressed in terms of depreciated purchasing power, which leads, on the one hand, to low final costs and, on the other hand, makes it difficult to restart the production process;
- the influences of the valuation methods used for the exit from the estate lead us to state that none of them can be considered optimal under inflationary conditions. Thus, the application of the FIFO method leads to an overvalued result, since consumption is expressed in the "oldest" prices. On the other hand, by using it, final stocks are valued at the most recent prices, thus expressing a purchasing power closer to present reality. If we refer to the LIFO method, we note that using it gives a more accurate result, since consumption is valued in the most recent purchasing power, but the final stock of the enterprise is presented in the financial statements in a 'distant' purchasing power, which is no longer current;
- a new element is identified in the case of materials in the nature of inventory items, which under the current rules are treated as actual materials, which means that the negative influence of the gradual recording of wear and tear disappears when their consumption is recorded by allocating their full value to expenditure.

Finished products, semi-finished products and work in progress have certain peculiarities relating to the duration of the manufacturing process, the method of calculation and the method of valuation of stocks on leaving the undertaking, as follows:

- for entities with long manufacturing processes, the size of the final cost is influenced by the time elapsed between the purchase of stocks used in production and their consumption, this influence being accentuated by the valuation method used;
- the duration of the production process and the turnover rate of the stocks consumed influence the size of the production cost, which is lower the higher the value of these two elements;
- the actual cost, at which valuation is carried out in the balance sheet, contains values expressed in different purchasing power at different times, the heterogeneous nature of the values included in the cost being accentuated by the duration of the production process.

In the case of goods, if supplies and sales are rhythmic, the influence of inflation is not major. In this context we can see that frequent changes in supply prices require, at the same pace, adjustments in sales prices, which means that the valuation at actual supply cost reveals a final stock containing heterogeneous values. Negative aspects can be highlighted in the case of hard-to-sell or long-life goods, which result in the immobilization of financial resources or, if they are perishable, irreversible losses due to deterioration, expiry of shelf life, etc.

With regard to current assets in settlement there are notable inflationary influences on trade receivables, which can be summarised as follows:

- negative influences arise from the existence of long settlement periods, as there is a depreciation of the sources of receivables from debtors, such influences can be mitigated to a certain extent by the creation of debts to customers as a result of receiving advances from them;
- amounts advanced to suppliers on account of subsequent purchases imply the transfer of purchasing power to them, as delivery, and hence payment of the difference, will be made at a reduced purchasing power;
- foreign currency receivables positively affect the undertaking when the national currency depreciates against the currency in which these rights are denominated, especially as at the year-end the valuation is made at the exchange rate at that date.

Negative effects may also arise in the case of claims which the undertaking has on its shareholders or associates when the subscribed contributions are paid in several instalments or late, as follows:

- the fact that payments are made in several instalments may influence the outcome of the valuations carried out for the valuation of contributions in kind, the greater the effect, the greater the interval between two successive instalments;
- where contributions are in cash, the deposit of subsequent instalments or the delay in making payments increases the negative effects, which can be mitigated by the levying of penalties for late payment.

The impact of inflation on current cash assets is primarily reflected in the depreciation of cash held by the enterprise in cash or current accounts. The late collection of debts, the holding of any surplus financial resources without being invested, the existence in cash in excess of the firm's immediate cash requirements, all lead to a sharp fall in the purchasing power of money in conditions of high inflation. If the undertaking has cash in excess of its operating requirements, the managerial decision must seek to protect it as far as possible by investing it in term deposits, converting it into foreign currency, etc., taking account of the specific conditions of the economic environment and the return on each type of investment.

At the same time, we note that the following aspects should be taken into account when using letters of credit in inflationary conditions as a form of non-cash settlement:

- the creation of such letters of credit should be carried out when objective conditions exist which require the use of such a form of settlement, since the existence of letters of credit which have no purpose or which are not necessary leads to the immobilization of financial resources which, being unprotected, are subject to much greater depreciation;
- the amounts for which letters of credit are opened should be as close as possible in value to the debts which they are intended to discharge, and actual payment should be made as soon as possible after opening;
- In our view, the creation of letters of credit in national currency for contracts with currency discount clauses should be avoided.

Short-term financial investments, as treasury current asset structures, are also affected by the inflationary phenomenon, and the main directions in which these influences manifest themselves can be summarized as follows:

- if successive repurchases are made at different prices, the value of securities held is heterogeneous, as they contain/express different purchasing powers specific to different times;
- in the case of listed securities, the movement in the price may lead either to an accentuation of the depreciation, if it is falling, or to an appreciation in value, if it is rising;
- a favourable influence can be observed in the case of payments to be made for short-term financial investments which will be affected by inflation, leading to a gain as a result of transfers of depreciated currency, characterised by lower purchasing power.

5.2. Quality of accounting information on equity and debt under inflationary conditions

The enterprise's capital is a particularly important factor of production which, in its development, takes various forms, starting with cash in most cases and ending with stocks and fixed assets, allowing economic processes to resume under normal conditions. After the first cycle of activity, new elements are added to the initial value of capital, the profit/loss made and any reserves built up, and as a result of the continuity of this circuit their structure is constantly changing.

Conceptually, capital is the source of finance for the bulk of the assets available to the enterprise at any one time, and includes equity, long-term liabilities and provisions. From a financial point of view, the sum of these three components determines the permanent capital used for consumption and value creation.

Although permanent capital is an essential structure of liabilities, debts with a maturity of less than one year, known as current liabilities, should not be omitted, as they are a substantial and by no means negligible component.

Maintaining and increasing the initial value of an investment, as the main objective pursued by the managers of any enterprise, takes on special connotations in an economy dominated by inflation, since it is well known that the safety margin of an establishment is ensured by the existence of a positive working capital, which in fact represents the surplus of permanent capital over net fixed assets.

The analysis of liabilities in the context of inflation highlights a multitude of influences, which are summarised below.

- The effect of making successive cash injections without protection clauses, at different times of more than one year, is that the purchasing power of the amounts injected deteriorates, since the first instalments of the injection will have a past purchasing power, while only the last instalment will have a current purchasing power.
- In the case of an increase in share capital, several negative influences may arise, mainly concerning: the granting of advantages to the old shareholders; the increase carried out by internal operations leads to the capitalisation of values expressed in a depreciated currency, which means that the new size of the share capital does not reflect a real value; the conversion of debts at disadvantageous rates; the assumption of influences which may be positive or negative following merger operations.
- Reflecting share capital in the balance sheet at the nominal value at the time of its creation or increase contributes to the presentation by the accounts of outdated information of questionable quality.
- With regard to capital premiums, we note, on the one hand, a positive influence consisting of a certain protection of share capital and, on the other hand, negative influences which they give rise to, consisting of: the taking over by merger of negative influences from the merged unit; their non-use for a long period; in the event of their reduction or use, the transfer of all these influences to share capital or reserves, as the case may be.
- Revaluation reserves and reserves are those which can partially offset the negative influences on equity capital, but the accumulation and non-incorporation of revaluation differences in reserves or reserves in equity capital leads to their depreciation as a result of the reduction in the purchasing power of the currency in which they are denominated.
- Revaluation reserves can only be used periodically, every few years, as a result of revaluations carried out, and if they are not used they appear in the balance sheet expressed in the purchasing power of the currency at the time of the revaluation, and their accumulation over several years leads to continuous undervaluation as a result of depreciation under the influence of inflation.
- The current result, i.e. the result brought forward, takes over all the negative influences arising from the conduct of economic operations as reflected in the income and expenditure

accounts, and their non-allocation and non-utilisation results in a loss of substance due to the reduction in purchasing power over time.

- The financial results are presented in the balance sheet in an overstated amount, which leads to the calculation and payment of fictitious dividends on the one hand and higher taxes on the other, which leads to the phenomenon of decapitalisation of the company.
- Investment grants have a negative impact through the accumulation of values expressed in different purchasing power and the gradual inclusion in income of the depreciation part relating to the management period, which causes part of the value of the entry to be transferred to the profit and loss account, and last but not least the appearance in the balance sheet of their non-discounted balance not transferred to the profit and loss account.

The analysis of liabilities, as the structure of the enterprise's liabilities, under the impact of inflation, must be carried out in the light of the two components of this category, long-term liabilities and current liabilities. In general, debts, as a result of the action of inflation, generate positive influences, which in the case of long-term debts can be briefly presented as follows:

- borrowing from bond issues and long-term bank loans is done in a currency with greater purchasing power, while subsequent repayment is made in a depreciated currency, i.e. the same amount is repaid but less can be bought;
- long-term bank loans can have a negative impact if they are converted into shares, since this means that dividends, which express a current purchasing power, are subsequently paid to the current creditor or future shareholder, but may in time exceed the value of the loan;
- interest on loans and similar debts gives rise to an advantage if it is calculated without discounting and at interest rates below the rate of inflation, and to a disadvantage if interest is paid at a rate above the rate of inflation or the rate of financial return.

Within current liabilities, we can distinguish between commercial liabilities, liabilities to staff and tax liabilities, which, when studied in relation to inflation, reveal a number of influences which we shall try to summarise.

- The immediate payment of debts to suppliers entails giving up the advantages offered by the stable liabilities "technique" and reducing the gain from holding monetary liabilities, while the subsequent payment of these debts entails increasing the gain from holding monetary liabilities.
- Advances to suppliers are a negative influence because of the decrease in the purchasing power of the values advanced, under the conditions of mutual recognition of this loss by accepting settlement terms.
- Valuation at face value of debts is generally a gain when considering the repayment or payment obligation expressed in a declining purchasing power, but when considering the informational aspect we are faced with a disadvantage, materialised in the deterioration of the quality of the information provided by the financial statements.
- Liabilities in foreign currency, as a result of discounting at the year-end exchange rate, may generate positive or negative influences depending on exchange rate movements.
- Tax debts do not have a negative impact when paid on time, especially as for some debts the due date is in the month (quarter) following the calculation period, but in the event of late payment penalties or increases above the inflation rate for the period are charged.
- The obligations of companies to their members or shareholders in respect of dividends to be paid may have a negative impact if they are paid in advance, whereas leaving dividends at the disposal of the company may be an advantage if no interest is charged.

Provisions, which are a component of permanent capital, are also influenced by inflation, mainly in the form of: the accumulation of values expressed in currencies with different purchasing power in the event of their being increased, their being set up in the present for future events which will be expressed in much lower purchasing power, an increase in corporation tax at the end of the financial year, whereas during the financial year they play a minor role, etc.

6. The social impact of declining quality of accounting information in inflationary environments

The concept of the public at large and the idea of satisfying its informational interests brings into question a wider range of actors participating in the social game, in which accounting has assumed a very important role. In this sense, we are talking about multiple stakeholders in accounting information, of which investors, creditors, management teams, employees and public administrations are representative categories.

The quality of accounting information is affected to a greater or lesser extent by the inflationary phenomenon, as the interests of all these stakeholders, as participants in the social game, are affected because, under inflationary conditions, due to monetary instability, the value of the structures recognised in the accounts is affected and distorted, creating difficulties in the valuation process and implicitly in terms of reflecting a true picture of economic reality.

As we pointed out earlier, accounting has an important role to play in society, on the one hand as a social intermediary, by assisting the process of redistributing resources in society and guaranteeing sustainable economic progress, and on the other hand serving the public interest, by providing all stakeholders with correct and balanced information.

From the detailed analysis that we have carried out previously, it has been possible to establish that, under inflationary conditions, the information provided by historical cost accounting is distorted and no longer equally meets the desire to serve the public interest, in the sense that the information needs of stakeholders are no longer fully satisfied.

In this context, the social impact that inflation has as a result of the decline in the quality of accounting information must be seen in terms of the impairment of the essential role of accounting, which is to serve the public interest, and not as a direct and immediate effect of this macroeconomic phenomenon on the individual as a member of society.

7. Conclusions

Maintaining capital and operating profitably under inflationary conditions is an ongoing concern and also a particularly complex issue for every economic entity, for which appropriate accounting information is naturally required to solve.

While the traditional historical cost accounting model is accepted as an optimal solution in a situation of price stability, there are serious reservations about its use and usefulness in a situation of general price increases, not least because it is difficult or almost impossible to comply rigorously with the requirement to ensure a true and fair presentation of the financial position and results.

In fact, one of the most serious consequences of historical cost accounting, in conditions of inflation, which also has many social implications, is the decapitalisation of businesses, which raises the issue of finding solutions that help to combat or even eliminate this major shortcoming of the accounting model in question. In this situation, maintaining capital becomes an essential objective for every economic entity, on the achievement of which the very continuation of activity under efficient conditions depends. In view of the many arguments presented during the analysis carried out in our study, it can be concluded that, under conditions of inflation, the quality of accounting information is adversely affected and accounting is no longer fully able to fulfil its assumed role of mediating the process of social intermediation and satisfying the public interest. In these circumstances, we believe that it is necessary to implement accounting methods that are adapted to inflation and that will remove the disadvantages of accounting based on the historical cost principle. The analysis of such methods can also be an objective for future research, which will continue the scientific approach started in this study.

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