



INTERNATIONAL JOURNAL OF BUSINESS

# **MANAGEMENT AND ACCOUNTING**

# International Journal of Business, Management and Accounting

Volume 5, No.6, November 2025

**Internet address:** <http://www.ejournals.id/index.php/IJBMA/issue/archive>

**E-mail:** info@ejournals.id

Published by ejournals PVT LTD

Issued Bimonthly

DOI prefix: 10.52325

Potsdamer Straße 170, 10784 Berlin

*Requirements for the authors.*

*The manuscript authors must provide reliable results of the work done, as well as an objective judgment on the significance of the study. The data underlying the work should be presented accurately, without errors. The work should contain enough details and bibliographic references for possible reproduction. False or knowingly erroneous statements are perceived as unethical behavior and unacceptable.*

*Authors should make sure that the original work is submitted and, if other authors' works or claims are used, provide appropriate bibliographic references or citations. Plagiarism can exist in many forms - from representing someone else's work as copyright to copying or paraphrasing significant parts of another's work without attribution, as well as claiming one's rights to the results of another's research. Plagiarism in all forms constitutes unethical acts and is unacceptable. Responsibility for plagiarism is entirely on the shoulders of the authors.*

*Significant errors in published works. If the author detects significant errors or inaccuracies in the publication, the author must inform the editor of the journal or the publisher about this and interact with them in order to remove the publication as soon as possible or correct errors. If the editor or publisher has received information from a third party that the publication contains significant errors, the author must withdraw the work or correct the errors as soon as possible.*

**OPEN ACCESS**

Copyright © 2025 by ejournals PVT LTD

[www.ejournals.id](http://www.ejournals.id)  
[Info@ejournals.id](mailto:Info@ejournals.id)

2

# CHIEF EDITOR

**Serikuly Zhandos**

PhD, Associate Professor, RWTH Aachen University, *Aachen, Germany*

## EDITORIAL BOARD

**T. Pfeiffer**

*University of Vienna, Austria*

**C. Dambrin**

*ESCP Business School, France*

**R. Chenhall**

*Monash University, Australia*

**A. Davila**

*University of Navarra, Spain*

**N. Dai**

*University of International Business  
and Economics, China*

## **ACCOUNTING FOR INFLATION**

**Elmurat S, KHaitmetov**

Head of the Consumer Protection Department of the Committee for Competition  
Development and Consumer Protection of the Republic of Uzbekistan

*Abstract. The article discusses the issues of accounting for inflation and the methods of adjusting financial statements under inflationary conditions. It is well known that the main purpose of accounting is to assess the economic performance of business entities. At the same time, inflation directly affects the unit of measurement - that is, the currency unit. Therefore, it is natural that inflation has a significant impact on the accounting system. This impact becomes especially evident when accounting records are traditionally maintained based on the actual (nominal) value of assets and liabilities at the time of their acquisition.*

*Keywords: Inflation, International Accounting Standard 29, "Financial Reporting in Hyperinflationary Economies."*

### **Introduction**

Under inflationary conditions, the current value of assets is usually much higher than their historical cost at the time of purchase. Similarly, in determining profit, the monetary equivalent of a business entity's own capital - that is, the amount of capital that ensures economic stability both at the beginning and at the end of the reporting period - must be adjusted for inflation. However, since expenses in the current accounting system are recorded at historical cost, such adjustments are not made.

This very issue has become the focus of academic and practical debates in recent years regarding the nature of accounting profit. For instance, can the increase in the nominal (i.e., monetary but not real) value of shares reflected in the balance sheet be recognized as profit? Do entities financed through borrowed funds experience an increase in capital value due to inflation? Do they gain real profit by repaying their debts in a currency with decreased purchasing power? These questions are actively discussed among professionals. In the economies of Western Europe and North America, where inflation rates are relatively low, traditional accounting methods are still preferred over a complete transformation of the reporting system to reflect inflationary processes. Nevertheless, a clear trend has emerged toward recording accounting objects in the balance sheet at fair (real) value, particularly concerning financial instruments. The transition to fair value measurement is expected to continue in the future, which will require accounting standard-setting bodies to conduct a deep analysis of issues such as recognizing gains and losses resulting from changes in value.

Moreover, countries with low inflation rates are forced to address this issue gradually rather than through comprehensive reforms. In this context, Mexico's experience in maintaining accounting under high inflation conditions is of particular importance. Although international financial reporting standards (IFRS) are not fully applied in that country, its national standards are quite similar to international standards - in particular, International Accounting Standard 29, "Financial Reporting in Hyperinflationary Economies."

According to the law enacted in 1979, the first national requirements were aimed at disclosing information about the impact of inflation on financial indicators in the explanatory notes to financial statements. The main issue was that many business entities

did not pay sufficient attention to the practical implementation of these requirements, resulting in unreliable and incomplete information presented in the notes. In 1984, a new legislative act was adopted, obliging companies and credit institutions to recognize the effects of inflation in their financial reporting. This act was later amended several times in accordance with changes in inflation accounting methodology. In particular, the original 1984 act allowed the use of the replacement cost method for asset valuation, but later this method was prohibited for all asset types except inventories.

The fundamental principle underlying the 1984 act is the recognition of profit based on the concept of capital maintenance, which is similar to the approach used in International Financial Reporting Standards (IFRS). From a methodological standpoint, the key difference lies in how asset values are restated: unlike IFRS, the general consumer price index is applied to all non-monetary assets except inventories, whose value is recalculated based on replacement costs. Furthermore, a "combined" index - incorporating both the inflation index and the exchange rate - is applied to imported equipment. Financial statements, meanwhile, are prepared exclusively in the national currency.

In the case of Uzbekistan, the adjustment of business entities' financial statements to reflect inflation is directly linked to the country's economic development characteristics during the years of market reforms, which have, in turn, influenced inflationary processes. Inflation-induced price changes are among the key factors distorting the information presented in financial statements. Because the purchasing power of the monetary units expressed in financial reports differs across reporting periods - and even within a single reporting period - appropriate adjustments to accounting data are necessary. The methodology for reflecting inflation's impact in accounting and financial reporting is based on the capital maintenance concept, according to which profit represents an increase in capital, either in financial or physical form (for example, in terms of production capacity).

In international accounting practice, two main approaches are used to address this issue. The first approach is based on the concept of maintaining financial capital and involves applying a general price index (typically the consumer price index) to non-monetary balance sheet items. The second approach is based on the concept of maintaining physical capital and entails restating financial statements in accordance with the specific price changes of individual assets. Similarly, the problem of data comparability under changing price conditions is also addressed in the International Financial Reporting Standards - particularly in IFRS 15 "Accounting for the Effects of Changes in Prices" and IFRS 29 "Financial Reporting in Hyperinflationary Economies." These standards provide the main methodological framework for inflation accounting and reporting.

### **International Financial Reporting Standard (IFRS) 29 - "Financial Reporting in Hyperinflationary Economies"**

Since the development of the International Financial Reporting Standard (IFRS) 29 - "Financial Reporting in Hyperinflationary Economies", the International Accounting Standards Committee has paid special attention to the issue of inflation. The Committee has studied the experience of different countries in accounting for inflation, their practices in bookkeeping and financial reporting, as well as the preparation of consolidated statements under various levels of inflation.

The issue of recognizing and measuring inflation is also of great relevance for Uzbekistan, whose economy has been operating under conditions of inflation and

hyperinflation since 1991.

According to IFRS 29, presenting reports on business performance and financial position in local currency without revaluation under hyperinflationary conditions is meaningless. The purchasing power of money decreases so rapidly that it becomes almost impossible to compare figures derived from transactions carried out at different times, even within the same reporting period.

At the same time, this standard does not define a specific threshold for the inflation rate—that is, it does not specify at which percentage inflation should be considered hyperinflation. However, it outlines the following characteristics of a hyperinflationary economy:

- The majority of the population prefers to hold its wealth in non-monetary assets or relatively stable foreign currencies, and prices of goods are often set in those foreign currencies.
- Credit transactions for sales and deliveries, even if short-term, are conducted at prices that compensate for the loss of purchasing power during the credit period.
- Monetary assets and liabilities are denominated or settled in a relatively stable foreign currency, and prices are often quoted in that currency.
- Interest rates, wages, and prices are linked to the consumer price index; over a three-year period, the cumulative inflation rate approaches or exceeds 100%.
- It is impossible to establish a strict boundary for the level of inflation that requires adjustment of financial statements. Usually, such levels are associated with hyperinflationary conditions, and the starting point of hyperinflation is determined by the overall economic situation in the country.
- Each financial institution independently decides whether to apply inflation accounting principles. However, it is advisable that all institutions reporting in the same currency transition to inflation-adjusted reporting simultaneously.
- Inflation adjustments are based on changes in the purchasing power of money over time. Under hyperinflation, financial statements are only meaningful if the monetary values of accounting objects reflect the real purchasing power of the currency at the reporting date.

### **Objectives, Tasks, and Advantages of Applying IFRS 29**

The main purpose of bank reporting is to serve as a reliable, complete, and timely source of economic information about a bank's activities. Bank financial statements must be understandable for current and potential investors and creditors, providing a clear understanding of the amounts, timing, and risks affecting expected returns. They should also contain information about the composition and types of attracted resources, their allocation, reserve volumes, and possible credit losses.

Modern bank management is primarily based on quantitative data expressed in monetary terms. However, accounting reports may also include qualitative (non-monetary) information if it helps objectively analyze performance results. In this sense, accounting data sometimes rely on conditional classifications and estimates, which gives them an approximate nature. For example, regular loan accounts showing repeatedly extended loans do not fully reflect the ratio between current and overdue loans.

From this perspective, bank financial statements prepared in the current monetary unit according to IFRS 29 have several advantages:

1. They provide comparable data over time for management, shareholders, and other users regarding performance results, capital size, and development trends.
2. They help management make more informed decisions regarding capital investments.

3.They are more useful for foreign investors and other users since they enable higher comparability with other banks operating in financial markets.

### **The Process of Transitioning to IFRS 29**

The transition to IFRS 29 involves restating all financial statement items (including comparative indicators) in terms of the overall purchasing power of the reporting currency at the end of the reporting year. The effect of applying this standard on the balance sheet depends on the inflation rate and the structure of a bank's assets and liabilities.

This restatement process requires high professional competence. IFRS 29 emphasizes that consistency in applying procedures from one reporting period to the next is more important than achieving mathematical precision in final results.

In practice, applying IFRS 29 requires restating financial statement indicators-including the cash flow statement-to reflect the actual purchasing power of money at the reporting date. This process generally involves the following stages for credit institutions:

- Selecting a general price index;
- Classifying balance sheet items into monetary and non-monetary categories;
- Restating the income statement;
- Calculating and confirming monetary gains or losses;
- Preparing a cash flow statement adjusted for inflation;
- Restating comparative figures.

### **Selecting a Price Index**

As mentioned above, inflation adjustments are based on the purchasing power of money and its changes over time. Financial statements are only meaningful in hyperinflationary conditions if monetary values reflect the real purchasing power of money at the reporting date.

To measure changes in the national currency's value, price indices are used. Their goal is to separate distortions caused by changes in the value of money from those resulting from market fluctuations. These indices typically measure the overall change in prices for a representative basket of goods and services, commonly known as the "consumer basket." This indicator then serves as a measure of the change in the value of money.

However, any such basket is also subject to changes in supply and demand, meaning that price movements depend not only on the currency's purchasing power but also on market forces. Since there is no precise method to measure direct currency fluctuations, the price index method inevitably mixes demand-supply factors with currency value changes. The only hope is that the selected basket is broad enough to partially offset such effects.

Inflation is usually represented through multiple indices, and the calculated inflation rate for a given period partly depends on the type of index selected. In most countries, the retail price index, prepared for the government and published monthly, is widely used.

**References:**

Strielkowski, W., Grebennikova, V., Lisovskiy, A., Rakhimova, G., & Vasileva, T. (2025). AI-driven adaptive learning for sustainable educational transformation. *Sustainable Development*, 33(2), 1921-1947.

Kuzmin, E., Rakhimova, G., & Nasirova, H. (2024, June). Industrial Ecosystem Framework: A Literature Review. In *X Euro-Asian Symposium on Economic Theory" Viability of Economic Theories: through Order and Chaos"* (pp. 11-29). Cham: Springer Nature Switzerland.

Kuzmin, E., Rakhimova, G., Nasirova, H., & Namozov, J. (2025). Assessing the spread and coverage of ESG practices in Russian companies. *Frontiers in Sustainability*, 6, 1574190.

Kocherbaeva, A., Osmonova, A., Rakhimova, G., & Kuzmin, E. (2024). Big and Small Data in Corporate Human Resource Management. In *The Future of Industry: Human-Centric Approaches in Digital Transformation* (pp. 377-394). Cham: Springer Nature Switzerland.

