Impact of Inflation Accounting Application on Key Financial Ratios

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Abstract

This paper investigates the impact of inflation accounting on key financal ratios. To this end, the financial statements of 132 companies listed in the Istanbul Stock Exchange (ISE) are studied. An analyis of paired samples t test has been conducted on the financial ratios of the companies. The results show that a significant difference between adjusted cost based financial ratios and historical cost based financial ratios occurs only for current, ratios, equity ratios and noncurrent turnover ratios. The study does not cover companies operating in the financial sector. The companies reporting in accordance with IFRS for the studied periods that spans 2001-2004 are not included in the study either. The study offers valuable information as to analysing companies operating in hiper inflation economies.

Keywords: inflation accounting, adjusted financial statements, Turkey, adjusted financial ratios, Istanbul Stock Exchange (ISE)

Introduction

Hiperinflation hinders financial statements prepared under the historical cost based rules from producing understandable and comparable financial information.

To overcome this negative effect caused by hiperinflation, financial statements are adjusted according to inflation accounting rules. The adjustment process involves a complicated and time-consuming process.

The aim of the study is to determine the effect of inflation accounting applications on financial statements. For this, the results of ratio analysis are taken into consideration. The study also aims to find out whether inflation accounting applications significiantly change key financial ratios of companies or not.

In the literature, several studies have been conducted on the effect of inflation adjustment on ratios. In these studies, the adjusted and historical financial statements belonging to same periods are compared.

In our study, the historical financial statements and adjusted financial statements belong to different periods. Our analysis is based on comparing data belonging to the period of inflation adjustments and those in periods before the adjustments.

The financial statements of listed companies in Istanbul Stock Exchange are studied in our study. Financial ratios are calculated for 4 periods spanning from 2001 to 2004.

Our results show that a significant difference between adjusted cost based financial ratios and historical cost based financial ratios occurs only for current, ratios, equity ratisos and noncurrent turnover ratios.

The rest of the paper proceeds as follows: Section 2 summarizes the history of inflation accounting. Section 3 reviews relevant literature. Section 4 explains the data and the methodology. Section 5 presents the hypotheses. Section 6 provides the emprical results and Section 7 draws the conclusions.

A History of Inflation Accounting

The United States, the United Kingdom and certain other countries adopted forms of inflation accounting because increasing rates of inflation during 1970's had become a serious problem (Whittington, 1983, Bloom and Debessay, 1984)

In 1974, the Institute of Chartered Accountants in England and Wales, issued the provisional statement of Standard Accounting Practice No:7 "Accounting for Changes in the purchasing power of Money" . This is popularly known as CPP method of accounting. The practice required companies to include current purchasing power statements in to their annual accounts.

In 1975, a government-appointed committee consisted of accountants, businessmen and economists published a report called the Sandilands Report. The report rejected current purchasing power system and suggested current value accounting.

In 1977, the outgrowth of the Sandilands Committee report, ED 18 was issued. The Accounting Standards Council issued ED 24 requiring that current cost adjusted statements be reported as supplements to historic cost accounts so that ED 18 was not received with universal ethusiasm by profession (Brayshaw and Miro, 1985).

SSAP 16 Current Cost Accounting came into effect in 1980. This standard was completely withdrawn in 1988 due to criticism over cost and lack of use.

In 1976, the Securities and Exchange Commission required large American companies to include replacement cost of inventories, plant and equipment in their 10-Ks[**].

In 1979, Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No 33 as amending ASR 190. This standard required supplementary disclosures on both current cost and constant cost dollar estimates in

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[**] Prior to 1974, the world's principal experience with inflation accounting consisted of (1) Latin America's attempt to deal with high inflation by indexation and (2) the wholesale asset revaluations that occurred in Europe and Asia immediately following World War II. US, UK and other countries turned to general price level accounting to adjust the adverse effect of the continued accelerating inflation on financial statements. (see Davil Hale, 1978).

footnotes to the financial statements. By 1986, SFAS 33 was no longer mandatory in the United States after a cost-benefit analysis of applying the standard and a decline in the rate of inflation (Radebaugh and Gary, 2002).

In 1986, SFAS No. 33 was superseded by SFAS No.89 "Financial Reporting and Changing Prices". This standard which gives opportunity for companies to publish the effect of the general price level on a voluntary basis is still valid.

International Standards Accounting Committee issued IAS 6 "Accounting Responses to Changing Prices" in 1977. In 1981 IAS 15 "Information Reflecting The Effects of Changing" superseded IAS 6. Adoption of IAS 15 was optional not mandatory. This standard was withdrawn due to lact of support in 2005.

The latest standard now is IAS 29, "Financial Reporting in Hyperinflationary Economies" issued in 1989. The standards are mandatory for some companies reporting in the currency of a hyperinflationary economy.

Turkey had experienced hyperinflation until mid 2000s. However, application of inflation accounting became mandatory in 2003, when the inflation ratio started to decline. Prior to that year, in order to alleviate the negative effects of inflation, certain accounting techniques were allowed to be implemented in tax legislation; namely, LIFO, accelerated depreciation, adjustment of fixed assets (see Arsoy and Gücenme, 2009). The techniques were mainly used to lower the profit.

Capital Market Board (CMB) issued Communiqueʹ XI-20 "Principles for Adjustment of Financial Statements in Hyperinflationary Periods" in 2001. The communiqué largely adopted the rules of IAS 29. According to the communiqué companies were required to restate their financial statements of the period of 2003.

The Law numbered 5024 of the Ministry of Finance on inflation adjustment was enacted by the Turkish Parliament in 2003. According to the law, inflation adjustment was to be made after the beginning of 2004. Rules of the Tax Law about inflation accounting were significantly different from IAS 29. According to Taw Law, only balance sheets of companies were required to be adjusted. Items of income statements were not adjusted but the net monetary profit or loss was taken into account.

Those two different regulations, The Law 5024 and Communiqueʹ XI/20, are still valid. However, inflation accounting application ended in the beginning of 2005 for the inflation rate fell below the hyperinflation level.

Literature Review

D.J. Daily (1984) conducted a research on the effects of inflation in Canada on reported rate of return in manufacturing from 1966 to 1982. The study showed that when the capital was maintained on a current cost basis rather than on a historical cost basis, the level of rates of return was lowered. Most of the earlier studies (Basu and Hanna, 1976; Bossons, 1977; Tarasofsky, Roseman and Waslander, 1981) were in line with the results in Daily research. But, one study of inflation and taxation in Canada suggested that inflation had very little effect on the rate of return (Boadway, Bruce and Mintz, 1984).

A number of studies about rates of return to shareholders' interest in North American manufacturing firms concluded that the rates of return in manufacturing declined in late 1970s (Feldstein and Summers, 1977; Holland and Myers, 1979;

Nordhaus, 1975; Tarasofsky, Roseman and Waslander, 1981; Daly and MacCharles, 1982; Wilcox, 1983). Several of these studies suggest that declines were clearer for manufacturing than for the broader non-financial sector. A similar study conducted in United Kingdom shows similar results (Walton, 1981)

Such studies show that reported profits are overstated and total assets are undervalued during and after periods of inflation with traditional accounting concepts relative to an economic concept designed to maintain the firm as an ongoing entity (D.J.Daily, 1985).

Thies and Sturrock conducted a research over a sample of 50 large manufacturing firm using replacement cost data for the period 1977-1983. The findings showed that rankings of historical cost-based financial ratios did not match well with rankings of replacement cost-based ratios. The data also indicated that historical cost-based financial ratios often grossly misrepresent the relative financial strengths of companies.

In Turkey, the first inflation accounting application was conducted in 2003. The application was terminated after the 2004 financial statements were adjusted. Inflation accounting has been the subject of many studies. (see Uman, 1979; Akdoğan, 1980; Gucenme, 2002; Pekdemir and Selvi, 2004; Örten and Karapınar, 2004). However, these studies are not empirical in nature, rather they are theoretical and aim to explain the principles of application. The first empirical study on the effects of inflation on financial ratios was conducted by Karapinar and Zaif (2005).

In their study, Karapinar and Zaif examined the effects of inflation accounting practice on companies' financial ratios. Their sample covered the 73 non-financial companies listed Istanbul Stock Exchange as of 2003. The ratios were calculated on both historical and adjusted numbers of financial statements to form two sets of ratios. Results showed that there was no significant change in liquidity, financial, profitability and activity ratios except fixed asset turnover ratios.

Akdoğan, Aktas and Unal, in their study in 2009, extended the number of companies in the sample of Karapınar and Zaif. The results covering 146 companies were consistent with the findings of Karapınar and Zaif's study. Their results revealed that a statistically significant change for the whole sample occurs only on Total Assets Turnover. Other ratios did not show any considerable difference.

Data and Methodology

The sample group in this study consists of 233 non-financial sector companies listed in ISE. Of these, 72 companies reporting according to UFRS are excluded from the study for they adjusted all financial statements belonging to the examined periods according to IAS 29. Data concerning 5 companies cannot be obtained. 11 companies are also excluded from the study because they do not have any revenues and therefore certain ratios cannot be calculated. Finally, 132 companies are included in the scope of the study.

The studies in literature review appear to be conducted by comparing both historical ratios and inflation-adjusted ratios in the same period. In our study, we have followed a different method to determine the effects of inflation.

Sample period of data spans the period from 2001 to 2004. There are totally 3718 observations. The data used in study are divided into two groups.

The first group is comprised of ratio calculated by using the statements of 2001 and 2002. The statements belonging to these periods were not adjusted despite hyperinflation. The ratios calculated according to historical numbers compose the first group ratios.

The second group ratios are calculated by using the statements of 2003 and 2004. These statements were adjusted in accordance with inflation accounting rules. The ratios calculated according to the inflation-adjusted numbers compose the second group.

In the study, 12 ratios categorised under four groups are analysed. The calculated ratios are presented in Table 1.

Table 1: Ratios Used in the Study

Liquidy Ratios	Financial Structure Ratios
Current Ratio (CR)	Gearing Ratio (GR)
Asit Test Ratio (CTR)	Equity Ratio (ER)
Activity Ratios	**Profitability Ratios**
Creditors' Turnover (CreT)	Rate of Equity (ROE)
Inventory Turnover (IT)	Rate of Assets (ROA)
Current Turnover (CuT)	Operating Profit Margin (OPM)
Noncurrent Turnover (NCuT)	Net Profit Margin (NPM)

The t-test is used to compare the values of the means from two groups. The two sample of t-test has been performed because the variances of two groups are assumed unequal.

Hypotheses

In inflation accounting, balance sheet items are divided into two groups- monetary and non monetary items.

According to inflation accounting standards, although the non-monetary items are adjusted, monetary items are not adjusted because they are already expressed in terms of the monetary unit current at the balance sheet date.

The financial ratios are expected to change depending on whether items used by calculating them are monetary or non-monetary. No change is expected in financial ratios calculated by comparing monetary items with each other. However, when the ratio is calculated by comparing monetary and non-monetary items, we expect to find a change in financial ratios. The hypotheses developed within this frame are as follows:

Liquidity ratio is current asset divided by current liabilities. Current items are largely monetary. The most significant nonmonetary item among current items is inventories. Change in liquidity ratios will fluctuate depending on their magnitude. The

companies in the study are from a non-financial sector, therefore, they have large inventory investments. We, therefore, predict:

H1: There will be a significant difference in adjusted cost-based current ratios compared to historical cost-based current ratios.

Stock is subtracted form total assets. Acit-test ratio is found by dividing this amount by short term liabilities. So we therefore predict:

H2: There will be no significant difference in adjusted cost-based acit-test ratios compared to historical cost-based acit-test ratios.

Receivables turnover is calculated by dividing sales by average receivables. The amount of the receivable is not adjusted for it is a monetary item. The amount of the revenues is adjusted by applying the change in the general price index from the dates when the items of income were initialy recorded in the financial statements. While the numetaror of the ratio remains constant, the denominator is increasing. However, the rate of increase is not expected to change the ratio. Therefore, we predict:

H3: There will be no significant difference in adjusted cost-based creditors' ratios compared to historical cost-based creditors' ratios.

Inventory turnover is calculated by dividing the cost of sales by average inventory amount. The sales and inventory amounts are adjusted. So we predict:

H4: There will be no significant difference in adjusted cost-based inventory turnover ratios compared to historical cost-based inventory turnover ratios.

Current asset turnover is calculated by dividing revenues by average current assets. Current assests include nonmonetary items as well. Therefore,

H5: There will be no significant difference in adjusted cost-based current turnover ratios compared to historical cost-based current turnover ratios.

Fixed asset turnover is calculated by dividing sales by average fixed assets. Most of the fixed assets consist of nonmonetary items. Therefore,

H6: There will be a significant difference in adjusted cost-based non current turnover ratios compared to historical cost-based non current turnover ratios.

Gearing ratio is long-term debt divided by owner's equity. The debt item is generally monetary whereas equity is nonmonetary. Because of inflation adjustment, the numerator (debt) remains constant while denominator (owner's equity) is expected to increase. So, we predict:

H7: There will be a significant difference in adjusted cost-based gearing ratios compared to historical cost-based gearing ratios.

Equity ratio is equity divided by total assets. The amount of equity is a nonmonetary item. Total assests consist of monetary and nonmonetary items. We therefore predict:

H8: There will be a significant difference in adjusted cost-based equity ratios compared to historical cost-based equity ratios.

ROE is revenue divided by average equity. Equity is a nonmonetary item. As return item will be redefined according to the monetory loss or gain, we predict

H9: *There will be no significiant difference in adjusted cost-based ROE ratios compared to historical cost-based ROE ratios.*

ROA is calculated by dividing return by avearge assets. Asset items comprise non-monetary items. Monetary losses and gains will be included in return item. Therefore, we predict

H10: *There will be no significiant difference in adjusted cost-based ROA ratios compared to historical cost-based ROA ratios.*

Operating profit ratio is operating profit divided by revenues. All amounts of income and expenses are adjusted by applying the change in the general price index from the dates when the items of income and expenses have been initially recorded in the financial statements. The restatement especially causes greater differences in cost of sales and depreciation costs than in other costs. For this reason, the ratio is expected to decrease. Yet, the decrease is not assumed to lead to a big difference. So, we predict

H11: *There will be no significiant difference in adjusted cost-based OPM ratios compared to historical cost-based OPM.*

Monetary gain or loss is included in income statement after operating profit line. An excess of monetary assets over monetary liabilities cause losses purchasing power and an excess of monetary liabilities over monetary assets cause gains in purchasing power.

We think that the companies accustomed to operate in highinflation economies tend to hold net monetary position so that they can profit from these conditions. So, we predict

H12: *There will be no significiant difference in adjusted cost-based NPM ratios compared to historical cost-based NPM ratios.*

Empricial Findings

The following tables show the results of testing the above hypotheses. A closer look at the tables shows that the distribution of the ratios are positive, in other words drifting towards the right (if skewness>0,5, positive) and sharper than normal (Kurtosis>0). The hypotheses are tested at % 5 confidence level.

Table 2: Result of Liqudity Ratios

	CR		CTR	
	Historical (H)	*Adjusted (A)*	*Historical (H)*	*Adjusted (A)*
Mean	1.7052	2.2039	0.0414	0.0636
Observations	132	132	132	132
Standard Error	0.1052	0.1617	0.0294	0.0517
Median	1.4310	1.5697	0.0153	0.0122
Mode	1.8233	1.5692	0.0759	-0.2051
Standard Deviation	1.2090	1.8574	0.3373	0.5937
Sample Variance	1.4616	3.4501	0.1138	0.3525
Kurtosis	14.2102	12.9267	10.4213	47.0405
Skewness	2.7868	3.0206	1.1858	5.2130
Range	9.5969	12.8771	3.2527	6.8071
Minimum	0.1050	0.1399	-1.2763	-1.4993
Maximum	9.7019	13.0170	1.9764	5.3077
Sum	225.0825	290.9141	5.4599	8.3898
Confidence Level (%95)	0.2082	0.3198	0.0581	0.1022
Df	225.0000		208.0000	
t Stat	-2.5854		-0.3735	
P(T<=t) one-tail	0.0052		0.3546	
t Critical one-tail	1.6517		1.6522	
P(T<=t) two-tail	0.0104		0.7092	
t Critical two-tail	1.9706		1.9714	

Tablo 2 summarises the results of liqudity ratios. In terms of mean scores, adjusted ratios are bigger than the historical ratios. According to P score, both

hypothesis H1 and hypothesis H2 are accepted at % 5 confidence level. H1 proposes that there will be a significant difference in two groups ratios.

The acceptance of the hypothesis indicate that nonmonetary assets constitute the majority of current assets. H2 suggests that there will not be a significant difference in ratios. The acceptance of H2 suggests that inventories constitute the majority of nonmonetary assets among current assets.

Table 3: Results of Activity Ratios

	CreT		IT		CuT		NCuT	
	H	A	H	A	H	A	H	A
Mean	9.311	12.584	-5.618	-9.029	2.266	2.117	4.611	2.780
Observations	132	132	132	132	132	132	132	132
Standard Error	2.221	3.177	0.858	0.630	0.151	0.099	0.462	0.283
Median	5.473	5.568	-3.337	-7.059	1.989	1.897	2.967	1.677
Mode	10.360	9.547	-1.558	-4.530	2.910	3.425	2.105	1.553
Standard Deviation	25.524	36.506	9.860	7.244	1.739	1.148	5.315	3.259
Sample Variance	651.48	1332	97.221	52.477	3.025	1.318	28.251	10.623
Kurtosis	117.09	51.28	38.668	3.333	23.565	2.254	15.391	18.168
Skewness	10.54	6.892	-5.741	-1.824	4.041	1.150	3.383	3.492
Range	291.63	326.92	83.52	33.91	14.29	6.673	36.136	25.363
Minimum	0.305	0.283	-84.026	-34.734	0.102	0.029	0.052	0.016
Maximum	291.94	327.20	-0.502	-0.818	14.396	6.703	36.188	25.379
Sum	1229	1661	-741.68	-1191	299.15	279.48	608.70	366.96
Confidence Level (%95)	4.394	6.285	1.6977	1.2473	0.2995	0.1977	0.9152	0.5612
Df	234		242		227		217	
t Stat	-0.844		-0.310		0.821		3.374	
P(T<=t) one-tail	0.199		0.378		0.206		0.0004	
t Critical one-tail	1.651		1.651		1.651		1.651	
P(T<=t) two-tail	0.399		0.756		0.412		0.0009	
t Critical two-tail	1.970		1.969		1.970		1.971	

Tablo 3 shows the activity ratios. All activity ratios except creditors' turnover ratios have declined. The most significiant decline occured in the noncurrent turnover ratios (from 4,61 to 2,78).

H3, H4 and H5 suggest that there will not be a significant difference among groups. The P value of hypotheses are 0,40, 0,76 and 0,41 respectively. As the scores are bigger than 0,05, the hypotheses are accepted.

H6 assumes significiant differences between the ratios of the two groups. The P value of the hypothesis is 0,0009. The P value indicates that the ratios of the two groups are significiantly different from each other. Consequently, H6 hypothesis is accepted.

Table 4: Result of Financial Structure Ratios

	GR		ER	
	H	*A*	*H*	*A*
Mean	0.4672	0.3136	0.2890	0.5107
Observations	132.0000	132.0000	132.0000	132.0000
Standard Error	0.3526	0.1612	0.0630	0.0337
Median	0.1605	0.1285	0.4076	0.6147
Mode	0.3544	0.2076	0.5730	0.6638
Standard Deviation	4.0505	1.8524	0.7237	0.3872
Sample Variance	16.4068	3.4313	0.5238	0.1499
Kurtosis	101.1357	62.5703	35.9125	10.8151
Skewness	9.1750	5.6260	-5.1833	-2.7487
Range	53.9716	25.6370	6.4946	2.5291
Minimum	-10.2824	-7.9469	-5.6200	-1.5801
Maximum	43.6892	17.6901	0.8746	0.9491
Sum	61.6639	41.3978	38.1443	67.4098
Confidence Level (%95)	0.6974	0.3189	0.1246	0.0667
Df	183.0000		200.0000	
t Stat	0.3960		-3.1034	
P(T<=t) one-tail	0.3463		0.0011	
t Critical one-tail	1.6532		1.6525	
P(T<=t) two-tail	0.6925		0.0022	
t Critical two-tail	1.9730		1.9719	

Table 4 shows the results of the financial structure ratios. Gearing ratio dropped to 0.31 from 0.46.

The reason for this decrease is that equity item is nonmonetary. The P value is calculated as 0,69. This result shows that the ratios do not differ much from each other. Accordingly, H7 hypothesis is rejected.

Equity ratio increased to 0,51 from 0.29. H9 foresees a significant difference between the ratios. The P value, which is 0,002, indicates that the ratios are significiantly different from each other.

That H8 is accepted whereas H7 is rejected might be caused by long-term debts having nonmonetary items.

Table 5: Results of Profitability Ratiso

	ROE		ROE		OPM		NPM	
	H	*A*	*H*	*A*	*H*	*A*	*H*	*A*
Mean	1.502	0.015	0.003	0.020	-2265	-0.036	-2264	0.030
Observations	132	132	132	132	132	132	132	132
Standard Error	1.397	0.042	0.017	0.010	2260	0.031	2260	0.030
Median	0.123	0.050	0.028	0.025	0.019	0.013	0.002	0.014
Mode	0.123	-0.038	0.072	0.210	0.053	0.120	0.041	0.105
Standard Deviation	16.060	0.484	0.202	0.120	25976	0.360	25974	0.347
Sample Variance	257.93	0.234	0.041	0.014	674770 042.	0.129	674688 498	0.120
Kurtosis	130.21	12.43	6.052	3.182	131.99	37.77	131.99	24.47
Skewness	11.37	-0.443	-1.988	-0.575	-11.48	-5.401	-11.48	3.171
Range	191.51	5.075	1.281	0.928	298450	3.5590	298431	3.6674
Minimum	-7.501	-2.732	-0.895	-0.515	-29845	-2.9087	-29843	-1.1623
Maximum	184	2.3425	0.3863	0.4131	1.0199	0.6503	0.8241	2.5050
Sum	198.32	2.034	0.504	2.744	-29898	-4.8122	-29897	4.0077
Confidence Level (%95)	2.7654	0.083	0.034	0.020	4472.7	0.0620	4472.4	0.059
Df	131		214		131		131	
t Stat	1.063		-0.825		-1.001		-1.001	
P(T<=t) one-tail	0.144		0.204		0.159		0.159	
t Critical one-tail	1.656		1.652		1.656		1.656	
P(T<=t) two-tail	0.289		0.409		0.318		0.318	
t Critical two-tail	1.978		1.971		1.978		1.978	

Tablo 5 shows the results of the profitability ratios. ROE ratio dropped from 1,50 to 0,0015. This shows that inflation adjustment leads to large increases in equity items. H9 suggests that there will not be a significant difference between ratios. The P value verifies this hypothesis.

ROA ratio increased from 0,004 to 0.02. H10 does not suggest a significant difference between the two groups. The P value is calculated as 0,41. This indicates that there is not a significant difference between the two groups of ratios. Therefore, H10 is accepted.

OPM and NPM ratios increased dramatically. A point of consideration is the high range value. The reason for this is a company that causes the minimum level to be too

low (Nergis Holding Inc.). Therefore, this is an extraordinary situation. However, whether or not this firm is included in the sample group, profit margins generally appear to increase after inflation adjustment. The R value is calculated as 0,31 for both of the ratios. This score shows that inflation adjustment does not cause significant changes in ratios. Therefore, hypotheses H10 and H11 are accepted.

Conclusion

The study investigated the effect of inflation accounting on key financial ratios. To this end, data of 132 non-financial companies listed in ISE are used. The study covers the period of 2001-2004. The financial statements prepared in 2001 and 2002 are historical statements whereas the financial statements prepared in 2003 and 2004 are adjusted ones.

The data concerning 2001-2002 forms one group, the 2003-2004 data forms the other group. The descriptive statistics of both of the groups are calculated and t test is used to compare the groups.

According to descriptive statistics calculations, the current ratio, acid test ratio, equity ratio, creditors turnover ratios, ROA, OPM and NPM have increased. The decreasing ratios are gearing ratio, inventory turnover ratios, current turnover ratios, noncurrent turnover ratios and ROE. However, according to t test results, the three ratios that this difference is significant are current ratio, equity ratios and noncurrent ratios. The difference between equity and noncurrent ratios is a direct result of nonmonetary items. The result in current ratios is a sign that inventory investments among companies' assets can reach to high amounts.

When evaluating the findings, the following issues should be taken into account:

- The sample group excludes financial companies. The structures of financial companies in terms of monetary assets and monetary liabilities are totally different; therefore, the results of the study would be different.

- The inflation accounting principles that sample group companies predicate are different from those of IAS 29.

The results yield valuable findings concerning the financial analysis of companies operating in hyperinflationary economy. The analists to analyse companies in high inflation economy, even if not in hyperinflation, should evaluate ratios according to the findings of this article. This study enables standard setters to evaluate nonmonetary assets more realistically and thus overcome the negative effects of inflation.

We suggest a similar study be conducted for the financial sector companies as a further study.

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