

Quadrant II - Notes

Paper Code: COG107

Module Name: Accounting for Price Level Changes- Practical Problem.

Notes

Accounting for Price Level Changes

- Accounting for price level changes is a system of maintaining accounts in which all items in financial statements are recorded at current values.
- This system of accounting ascertains profit or loss and presents financial position of the business on the basis of current prices.
- Accounting for price level changes is also called Inflation Accounting.
- The general tendency in changes of prices of goods and services over a time is called price level.
- The rise in general price level is called Inflation. During the period of Inflation, purchasing power of money declines.
- The fall in the general price level is called Deflation. During the period of deflation, purchasing power of money increases.
- Price level change means increase or decrease in the purchasing power of money over a period of time.
- The accounting which considers price level changes is called Accounting for Price Level Changes.