THE IMPACT OF THE INFLATION TO THE INFORMATION DISCLOSURE IN FINANCIAL STATEMENT OF BUSINESS ENTITIES

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Abstract

One of the economic policy's main objectives is to maintain price stability. Price stability is distorted by inflation, which means an increase in the price level or the corresponding decrease in the purchasing power of the monetary unit. The aim of the paper is to analyze the impact of inflation to reported information in financial statements. Objective of the paper is calculation and presentation of the inflation´s impact to the assets, liabilities and equity disclosed in financial statements through the current purchasing power method in accordance with true and fair view. The greatest impact of inflation on entity's financial situation reporting can be seen in hyperinflationary economics, but also in other economies such an information can be used in decision making process on micro and macro level.

Keywords

Inflation, Hyperinflation, Financial Statements, Purchasing Power Method, True and Fair View

I. Introduction

Inflation is considered for a key indicator along with the rate of economic growth, unemployment rate and balance of foreign trade, which belong to the traditional economic indicators for evaluating the country's economic policy. Inflation, primarily as a macroeconomics indicator, has significant impact on behavior of business entities on micro level. Impact of inflation on business entities and on consumers increases proportionately with the rate of inflation. Aim of this paper is to analyze impact of inflation to information reported in business entity's financial statements. The topic of the paper is highly actual, because nowadays in the United States of America and in European Union we are observing efforts to increase economic growth by issuing more and more money to circulation. On the other side, a large amount of money in circulation result decrease in purchasing power of money – inflation. The inflation rate may range from modest inflation to hyperinflation, or represents a negative value, so deflation. In the past half year in Slovak Republic can be observed moderate increase of inflation rate. For undesirable phenomenon is considered hyperinflation, which has affected several countries in the past and in some countries, such as Venezuela, Iran and Belarus, is still a current problem nowadays.

In this paper were used several methods of examination such as analysis, comparison and synthesis. The objective of investigation is primarily definition of theoretical bases of price stability as one of the main aims of the economic policy based on literature in book publications and in publications in journals and proceedings. By selection were chosen relevant information needed to understand the issue of inflation and its impact on assets, liabilities and equity reported in financial statements. International accounting standard (IAS) 29 Financial reporting in hyperinflationary economies deals with problem of hyperinflation`s impact on financial statements on international level. The subject of the paper is to show the impact of inflation on components of financial statements by purchasing power method. Findings were summarized in the conclusion using synthesis.

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II. Price stability as an economic policy objective

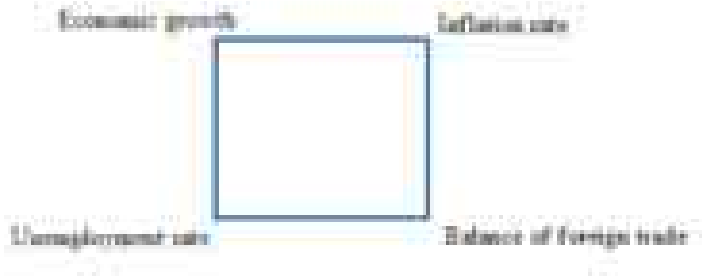
Economic policy represents a summary of the state's decisions about objectives, used instruments and specific measures that seek to influence the functioning of the national economy over a certain period. The objectives of economic policy are organized according to the hierarchy in Figure 1.

Figure 1 Hierarchy of economic policy objectives

Source: Lukáčik, Blašková, Fifeková, Lábaj, Morvay, Tokárová & Vincúr (2013)

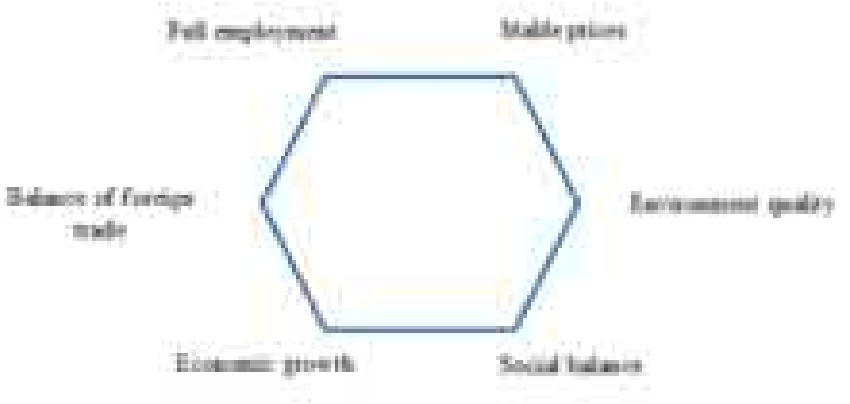
The main objective of economic policy is to maximize social welfare, while resources and production technologies are restricted. Traditional economic policy objectives include high employment, price stability, balance of foreign trade and economic growth. The fulfillment of traditional economic policy objectives depends on the efficiency of economic processes and on the activity of economic subjects whose measurement refer to the performance of the economy. Evaluation of the effectiveness of economic policy can be done on the basis of three criteria: Philips curve, magical quadrangle and magical hexagon (Figure 2). The Philips curve analyzes the relationship between the unemployment rate and the inflation rate, but in the long run loses its veracity.

Figure 2 Magical quadrangle



Source: Lukáčik, Blašková, Fifeková, Lábaj, Morvay, Tokárová & Vincúr (2013)

Figure 3 Magical hexagon



Source: Eisenhut, P. (2013)

All three criteria deal with the issue of price stability, respectively with the issue of inflation rate. Price stability usually represents moderate increasing price level. Macroeconomics imbalances except inflation may be caused also by disinflation, deflation, slumpflation and stagflation. Inflation: is the persistent increase in the price levels of goods and services over a given time period. 2 Disinflation is a slowing in increase of general price level. Disinflation is inflation, whose rate of growth decreased. Deflation is explained as the opposite of inflation, and results from decrease in general price level. Slumpflation is a phenomenon, when general price increase is accompanied by a recession and increasing unemployment rate. Stagflation occurs under conditions of economic stagnation and increasing production cost. [3]

Inflation can be quantified by price indexes which measure the average price level and capture the development of price level. Price index captures and compares changes in the prices of goods and services over the two observed period. Price index is weighted arithmetic average of the individual prices of a basket of consumer goods and services. Among the most used price indexes are included consumer price index, producer price index and implicit price deflator. Consumer price index (CPI) captures changes in the price level of goods and services at retail level. Consumer price index measures and reflects the average price level of basket of consumer goods and services consumed by the average household. The producer price index (PPI) measures the average change over time in selling prices received by domestic producers for their output. [4] Producer price index is used for measurement of changes in price level in wholesale. It is specified for various industries and sections, such as price index of industrial manufacturers. Net sales are used as fixed weight in individual business areas. The prevailing view is that the forthcoming changes in the consumer price index are signalized by developmental changes in the producer price index. The implicit price deflator (IPD) is the most comprehensive price index that measures the rate of inflation in the economy. The implicit price deflator reflects the rate of decrease in gross domestic product due to inflation over given year. Differences between consumer price index and implicit price deflator are significant. Implicit price deflator measures prices of all finalized goods and services produced in

[2] Wasseja, Njoroge & Mwenda (2015).
[3] Lisý, Čaplánová, Dziurová, Gonda, Hontyová, Matoušková et al. (2016).
[4] Kowal, Conforti, Hergt & Marquardt (2017).

economy. Consumer price index measures only price of basket of consumer goods and services and does not consider goods and services purchased by government and firms as implicit price deflator. Implicit price deflator does not include imported goods and services. Consumer price index is based on fixed weight of the components of basket, but implicit price deflator uses variable weights. Variable weights are involved in generating overall gross domestic product and these weights may change over time. [5]

From the quantitative point of view inflation can be divided into moderate, galloping and hyperinflation. Moderate inflation represents moderate rate of increase in price level. It is characterized by a slow and predictable rise in prices and is expressed in single digit rate annually. Galloping inflation is expressed in two-digit or three-digit per annum rate of increase in price level. In this case, the public does not trust money, there is a high volatility in prices of goods and services. Increase of price level is faster than growth of economic performance. Hyperinflation is a four-digit to multi-digit rate of increase in price level. It is characterized by the disintegration of monetary system. Money ceases to function of exchange instrument and the prices of goods and services are highly unstable. [6]

Moderate inflation has its advantages and disadvantages. Disadvantages of inflation represent the following social costs[7]:

- a high inflation rates creates logistical costs, because business entities need to frequently change their prices,
- a high inflation rate distorts relative prices, which in practice means that prices of the same products are not synchronized,
- inflation sometimes leads to counterproductive policies like price controls.

Another disadvantage of inflation is the accidental redistribution of wealth and income due to changes in relative product prices and production factors.

However, inflation also has its advantages, for example, government revenue increases as the government increases the amount of money in circulation. Quantitative easing to a large extent can cause hyperinflation, but in a smaller extent may support the economic growth of given country through easier accessibility to funds and financials, support of investments, but also consumption. Inflation stimulates economic activities, if wages in short term does not increase and the willingness of employers to employ more employee increase, which reduce the unemployment rate in the country.

The undesirable phenomenon is hyperinflation, which distorts price signals and demotivates the public to hold money. The purchasing power of money is decreasing and causes confusion and inadequate decision-making. Additionally firms are forced to adapt inflation, from which additional costs arise. [8] Hyperinflation is considered a problem of the past, but some countries are still hyperinflationary economies. One of the several reasons is that the high-quality inflation expectations data is not always available. For many developing countries, surveys of inflation expectations are not available or only recently available, and markets for inflation linked assets are absent or too thin or illiquid to be informative. [9]

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[5] Lisý, Čaplánová, Dziurová, Gonda, Hontyová, Matoušková et al. (2016).
[6] Lisý, Čaplánová, Dziurová, Gonda, Hontyová, Matoušková et al. (2016).
[7] Acemoglu, Laibson & List (2016).
[8] Acemoglu, Laibson & List (2016).
[9] Binder (2016).

At present, the average inflation rate in Eurozone is 0.24% and in Slovakia –0.5%.[10] From the point of view of accounting and reporting inflation has an impact on the true and fair view provided by financial statements. A true and fair view of the business entity, as well as a proper understanding thereof, is important for financial decision-making.[11] Higher inflation rate has a significant impact on the individual items of financial statements, which should be taken into account when financial statements are compiled. Users of information from financial statements should be also informed about the effect of inflation. The reporting of relevant information about an enterprise should be assessed not only in terms of the significance of the information, but also in terms of the expenses incurred for obtaining it in relation to benefits arising from the disclosure. [12] International Financial reporting standards put an emphasis on the reporting of information presenting the impact of inflation on financial statements in hyperinflationary economies.

III. International regulation of inflation reporting

Inflation is not only a macroeconomic issue, but also affects business entities at different levels. Financial statements provide information about business entity`s financial situation and performance. The main accounting principle, principle of true and fair view is not meet when inflation is not considered depending on height of inflation rate. Moderate inflation may have insignificant impact on information reported in financial statements, while in case of hyperinflation is required to apply specific approaches during the preparation of the financial statements. International financial reporting standards deals with the issue of inflation in ISA 29 Financial reporting in hyperinflationary economies. IAS 29 applies where functional currency, that means the currency in which financial statements are compiled, is a currency of a hyperinflationary economy. In hyperinflationary economy money loses purchasing power at a high rate. It makes impossible to compare amounts of transactions occurred at different times. Comparison of amounts within the same accounting period is also misleading. Standard does not define the rate of inflation in absolute terms, but sets the factors, that are critical in assessment whether it is a hyperinflation. The following characteristics of economic environment indicate hyperinflation:

- amounts of local currency held are immediately invested to maintain purchasing power, amounts of local currency are held in other relatively stable foreign currency or non-monetary assets,
- prices may be stated in relatively stable foreign currency, monetary amount are not compared in terms of local currency,
- wages, prices and interest rates are linked to a price index,
- sales and purchases on credit reflects the expected loss of purchasing power during the credit period, and
- the cumulative inflation rate over three years is approaching or exceeds 100%.

Business entity in country, with hyperinflationary economy compile financial statements in measuring unit current at the balance sheet day. The corresponding figures for the previous period and any information related to earlier periods shall be stated at the balance sheet day in measuring unit current. Financial statement shall provide information about gain or loss from net monetary position. Such a gain or loss shall be included in profit or loss and separately disclosed.

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[10] Ochotnický, Hofreiter, Vaškovič & Knapiková (2017).
[11] Juhászová, Markovič & Mokošová (2014).
[12] Tumpach & Baštincová (2014).

Procedures applied to report the impact of inflation are different, whether the financial statements are based on current cost approach or on historical costs approach.

Items in statement of financial position (balance sheet), which are stated in historical cost at the balance sheet date, are restated by applying a general price index. Items in terms of the measuring unit current at the balance sheet day have not to be restated. Monetary items are stated in terms of the measuring unit current at the balance sheet day, so there is no need for their restatement. Monetary items are money and other items, which will be paid or received in money. Non-monetary assets are restated by change in general price index, except assets, which are presented in fair value or net realizable value.

In statement of comprehensive income is needed to restate all amounts applying change in general price index from the date, when items were initially presented in financial statements. Gain or loss from net monetary position depends on proportion of liabilities and monetary assets. Business entity loses purchasing power of monetary assets, when holds excess of monetary assets above monetary liabilities. However excess of monetary liabilities above monetary assets obtains purchasing power. Gain or loss from net monetary position is included in profit or loss.

In case of compilation financial statements by current cost approach there is no need for restatements of these item`s amount. Any other items is necessary to restate according to procedures characterized above. Information presented in statement of comprehensive income is needed to be restated by general price index, because they are measured at current costs in time, when the cost and money expenditure occurred and not at current prices at balance sheet day. Gain or loss from net monetary position are treated in the same way as in the case of financial statements prepared using historical price approach.

Except of restated amounts in financial statements is necessary to disclose following information:

a) the fact that financial statements and the corresponding figures for previous period were restated for the changes in general purchasing power of the functional currency and financial statements are presented in terms of measuring unit current at the balance sheet day.

b) information about that financial statements are prepared based on current cost approach or historical cost approach, and

c) the identity and level of the price index at balance sheet day and change in price index during the current and previous reporting period. [13]

IV. Illustration of inflation impact on assets, liabilities and equity

IAS 29 Financial reporting in hyperinflationary economies is necessary to be applied in the case of hyperinflation, which is quantified as four-digit or multi-digit value according to macroeconomics theory. For the purpose of providing true and fair view of presented information for users procedures and methods intended in IAS 29 is appropriate to apply also at a lower rate of inflation. Business entity based on own judgment may determine the extent of inflation rate, which has significant impact on reported information and may apply procedures for restatement of amount about impact of inflation even if only for internal management needs. Thus obtained information influence managers decision-making in various fields, such as affects determination of sale prices, the way of financing, capital structure, distribution of profit. The extent in which information in financial statement are influenced by inflation we will illustrate on model example with an assumption of 5 percent inflation. Impact of inflation to assets, liabilities and equity will be calculated using current purchasing power method. Current purchasing power method is based on

[13] International Accounting Standards Board. (2001). IAS 29 Financial Reporting in Hyperinflationary Economies

recalculation of some items by changes in value due to inflation, respectively deflation. In case of inflation purchasing power of money decrease, as a result it is possible to purchase smaller quantity of goods and services than in previous periods. In the case of converting to measuring unit current purchasing power by current purchasing power method are recalculated non-monetary assets and equity. Liabilities measured at historical cost and monetary assets including receivables and short term financial assets are not restated. By deducting monetary liabilities from monetary assets we calculate the difference which is the basis for gain or loss from change in money purchasing power calculation. Gain or loss form change in money purchasing power is calculated as this difference is multiplied by the inflation coefficient. [14]

In model example we estimate average inflation rate of 5% annually over the accounting period, which will be adjusted to the value of non-monetary assets and gain, respectively loss from decrease of monetary assets value will be calculated. In model example business entity has assets, liabilities and equity at the beginning of accounting period in euros shown in balance sheet (Figure 3).

Figure 4 Assets, liabilities and equity at the beginning of the period 201x

Balance sheet as 1. 1. 201x			
Non-current assets	10 500,00	Trade liabilities	680,00
Inventory	4 560,00	Share capital	34 000,00
Trade receivables	14 590,00	Net profit of previous years	1 200,00
Bank accounts	6 230,00		
Total assets	35 880,00	Total liabilites and equtiy	35 880,00

Source: own illustration

As a result of accounting transactions over the period the amount of revenues, expenses and profit are presented in Figure 5.

Figure 6 Revenues, expenses and profit for the period 201x

Profit and loss statement for the accounting period 201x			
Depreciation	2 550,00	Revenue from the sale of goods	30 560,00
Services	15 620,00	Revenue from the sale of services	13 562,00
Cost of goods sold	6 750,00	Other operating income	130,00
Other financial costs	60,00	Interest income	12,00
Wages and salaries	17 520,00		
Total expenses	42 500,00	Total revenues	44 264,00
Profit	1 764,00		
Total	44 264,00	Total	44 264,00

Source: own illustration

During the accounting period were registered various accounting transactions. All purchased goods and part of inventory from the previous accounting period was during the current accounting period sold. The final balances of balance sheet account are presented in Figure 4.

[14] Soukupová, Šlosárová, Šlosár, Juhászová, Krišková, Szász & Mateášová (2008).

Figure 5 Assets, liabilities and equity at the end of the period 201x

Balance sheet as 31. 12. 201x

Non-current assets	10 500,00	Trade liabilities	11 846,00
Accumulated depreciation	- 2 550,00	Share capital	34 000,00
Inventory	1 280,00	Net profit of previous years	1 200,00
Trade receivables	25 060,00	Net profit for the accounting period	1 764,00
Bank accounts	14 520,00		
Total assets	48 810,00	Total liabilites and equtiy	48 810,00

Source: own illustration

In model example we estimate, that during the accounting period 201x was consumer price index 5%. Inflation is taken into account in financial statements by recalculating balance sheet from the beginning and from the end of accounting period and by recalculating the profit and loss statement for the period. Assets, liabilities and equity from the beginning of the period after restatement is illustrated on Figure 6.

Impact of inflation appears in case of non-monetary assets by increasing its value. Non-current assets in the amount of 10,500 € after recalculation will be presented in financial statements in amount of 11,025 €. The difference represents inflation of 5% of 10,500 €, therefore 525 €. Goods value of 4,560 € after restatement will be 4,788 €, so its value have increased by 228 €, therefore by 5% of 4,560 €. The overall impact of inflation on non-monetary assets is 753 €, which results increase in the amount of assets.

Figure 7 Assets, liabilities and equity at the beginning of the period 201x restated

Balance sheet as 1. 1. 201x restated

Non-current assets	11 025,00	Trade liabilities	680,00
Inventory	4 788,00	Share capital	34 000,00
Trade receivables	14 590,00	Net profit of previous years	1 200,00
Bank accounts	6 230,00	Adjustment of the impact of inflation	1 760,00
		Loss from the change in purchasing power	- 1 007,00
Total assets	36 633,00	Total liabilites and equtiy	36 633,00

Source: own illustration

Profit or loss from change in purchasing power is calculated based on procedures mentioned above. Difference from monetary assets (20,820 €, which consists from receivables 14,590 € and bank accounts 6,230 €) and monetary liabilities (liabilities 680 €) is 20,140 €, which is adjusted by 5% inflation and the result will be loss from change in purchasing power of net monetary assets in amount of 1,007 €. The adjustment of the impact of inflation is 1,760 €, which represents 5% from difference between assets and liabilities, respectively equity or net assets (35,200 €, which is difference of amount of assets: 35,880 € and liabilities: 680 €).

Similarly are recalculated the profit and loss statement and the balance sheet at the end of the accounting period. Restated items of profit and loss statement for the period are shown on Figure 7. From expenses items is necessary to recalculate amount of depreciation, because depreciation was calculated based on historical cost of non-current assets. In case of costs of goods sold is also necessary to recalculate, because part of inventory from previous period was sold. For other types of cost we assume that impact of inflation was reflected to their amount during the accounting period. In case of revenues we may also consider that inflation was taken into account when selling price of goods and services were determined. Depreciation is recalculated by adjustment of inflation

to original amount of depreciation (2,550 €), so by 5% (127.50 €) to amount 2,677.50 €. In case of inventory we have information that all purchased goods were sold during the accounting period. However, in balance sheet at the beginning of period we stated inventory valued at 4,560 € and at the end of period the final balance was 1,280 €. It follows that part of inventory from previous period was sold. Profit and loss statement for period 201x is necessary to adjust inflation to cost of goods sold. The value of cost of goods sold purchased in previous period is difference of opening balance (4,560 €) and final balance (1,280 €) in amount of 3,280 €. Cost of goods sold in profit and loss statement in amount 6,750 € is increased by 164 € (which is 5% from amount 3,280 €) to 6,914 €. Increase in expenses have negative impact on profit, so after recalculation profit decreased by 291.50 €, by which were amount of depreciation and cost of goods sold restated. After recalculation profit is 1,472.50 €.

Figure 8 Revenues, expenses and profit for the period 201x restated

Profit and loss statement for the accounting period 201x restated

Depreciation	2 677,50	Revenue from the sale of goods	30 560,00
Services	15 620,00	Revenue from the sale of services	13 562,00
Cost of goods sold	6 914,00	Other operating income	130,00
Other financial costs	60,00	Interest income	12,00
Wages and salaries	17 520,00		
Total expenses	42 791,50	Total revenues	44 264,00
Profit	1 472,50		
Total	44 264,00	Total	44 264,00

Source: own illustration

Adjustments to items of profit and loss statement has impact to balance sheet at the end of period 201x (Figure 8). In restated balance sheet at the beginning of period changes were related to items of non-current assets and inventory on the debit side and on the credit side to items adjustment of the impact of inflation and loss from the change in purchasing power. Amount of non-current assets at the end of accounting period will be identical with amount in restated balance sheet at the beginning of period, but change can be identified in amount of accumulated depreciation. Amount of accumulated depreciation is influenced by recalculated depreciation in amount of 2,677.50 € from the restated profit and loss statement. We have mentioned above that all purchased goods during period and part of inventory purchased in previous period was sold during examined period and the final balance of inventory is 1,280 €. Final balance need to be adjusted by inflation, that means 5% from 1,280 € what is 228 €. In restated balance sheet at the end of the period amount of inventory will be 1,344 €.

Items adjustment of the impact of inflation and loss from the change in purchasing power remained the same and profit is presented in restated amount from profit and loss statement restated (1,472.50).

Figure 9 Assets, liabilities and equity at the end of the period 201x restated

Balance sheet as 31. 12. 201x restated

Non-current assets	11 025,00	Trade liabilities	11 846,00
Accumulated depreciation	- 2 677,50	Share capital	34 000,00
Inventory	1 344,00	Net profit of previous years	1 200,00
Trade receivables	25 060,00	Net profit for the accounting period	1 472,50
Bank accounts	14 520,00	Adjustment of the impact of inflation	1 760,00
		Loss from the change in purchasing power	- 1 007,00
Total assets	49 271,50	Total liabilites and equtiy	49 271,50

Source: own illustration

In the following table is illustrated comparison of balance sheet total and profit before and after restatement of financial statements for period.

Table 1 Comparison of the balance sheet total and profit before and after restatement in €

	Before restatement	After restatement	Difference from recalculation
Balance sheet total as 1. 1. 201x	35 880,-	36 633,-	753,00
Balance sheet total as 31. 12. 201x	48 810,-	49 271,50	461,50
Profit for the period 201x	1 764,-	1 472,50	-291,50

Source: own illustration

As shown in Table 1 in the balance sheet at the beginning of accounting period difference arise from increase in amount of non-current assets and inventory. At the end of the period the balance sheet total is also higher in restated balance sheet at the end of period, because financial statements present some items, which were restated in balance sheet at the beginning of the accounting period. Difference between balance sheet total at the beginning and at the end of the period arises from transferred difference from profit and loss statement restated. Difference raised from change in profit is due to recalculation of depreciation and costs of goods sold, which decreased the amount of profit by 291.50 €.

Business entity is not obliged to restate items of financial statements if not follows the IFRS and not do business activities in country with hyperinflationary economy. However, for management such a recalculation provides useful information about real profit or loss. Under these circumstances with assumption of relatively low inflation rate restated profit is 16.52% lower than before restatement. Among other things is necessary to consider the fact that in Slovak and Czech Republic basis for corporate income tax calculation is profit or loss not restated. In case of model example tax base is calculated from a higher amount from not restated profit due to the corporate income tax is also higher. Higher corporate income tax decrease net profit, what should be considered when deciding about profit distribution. Above all when determining sales price is also needed to calculate with higher cost for inputs, which price increase due to inflation. Higher costs of input and decrease of money purchasing power should be reflected in the determination of the sales prices of output products.

V. Conclusion

Economic policy as an instrument of state is designed to ensure social welfare with given restrictions of resources. Government monitors the fulfillment of economic policy objectives through specific, easily measurable indicators. One from the monitored indicators is inflation, which is observed in relation to price stability. Government in determining the objectives of economic policy is not able to meet the full extent of objectives, therefore compromises are necessary for synchronization of economic policy objectives. The interest of the state is to maintain economic growth, but on other side economic growth may have as result inflation, because there is large amount of money in circulation. Large amount of money in circulation and low interest rates are attractive for business entities, because investments are available. Moderate inflation in two percent range is not considered as a negative phenomenon in economy, rather a positive one. However, rising inflation may lead to hyperinflation, which is an undesirable phenomenon.

To indicators signalizing fulfillment of economic policy objectives are related not only to field of macroeconomic, but also to micro level, where are influenced business entities. Business entities should consider the change in money`s purchasing power, while decision-making about investments, but also financial structure and asset structure. The data for managerial and strategical decisions are information provided by financial statement of business entity. For this reason is crucial that financial statements be a true and fair view and a reliable source of data for users. Reliability of information in the financial statement may be increased by reflecting inflation in the financial statements, or only as additional calculations which supports management`s decision-making. In the paper we examined illustration of impact of inflation to some items of balance sheet and profit and loss statement. Inflation has impact on non-monetary assets by increasing their value. While monetary assets in time of inflation loses its purchasing power, the borrower is advantaged, because purchasing power of the money, which has to be paid to meet the obligation is less. For this reason, lenders are disadvantaged by inflation, because for collected cash is possible to obtain smaller amount of goods and services than at the time of arise of receivables or providing a loan. Impact of inflation to assets, liabilities and equity were calculated in model example by current purchasing power method. Applying the current purchasing power method some items of financial statements were restated by inflation determined by consumer price index. We have found out that the balance sheet at the beginning of the accounting period restated presents a higher balance sheet total. We also identified increase of balance sheet total at the end of accounting period restated, but by a lower amount. The difference arises from increase of some items of costs due to inflation in profit and loss statement. Increase in costs has negative impact on profit. From the view of users in financial statement, mainly from the view of shareholders and managers, profit is one of the most important indicators, which tells about functioning of business entity. Based on amount of profit investors decides, if it is prospective to invest in business entity, when the investments will return and in what time horizon. Since considering inflation in financial statements is within the scope of business entity it is possible that additional information are not available for investors but only for management. For the reason that we have calculated with five percent inflation, differences from calculation can be considered for less significant. However, hyperinflation, which ranges from four-digit to multi-digit number, has a significant impact on information reported in financial statements and builds distrust among users of accounting information if it is not carefully presented and disclosed.

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