THE A PRIORI RELEVANCE OF GPLA TO GREEK FINANCIAL REPORTING

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1. INTRODUCTION

«......Everything is changing....»
HERACLITUS

Persistent inflation, coupled with the fact that price changes of items held or consumed by enterprises are not taken into account under Historical Cost Accounting, has led to a widespread questioning of the edequacy of conventional methods of financial reporting. This questioning started at least as early as 1918[1], and received its most intense attention during the 1970's when the more developed countries experienced high rates of inflation. Accordingly, various inflation accounting[2] systems have been proposed and adopted to cope with the impact of price changes on accounts[3].

1. See Whittington, (1980), p. 233.

2. The term «inflation accounting» as used in this study denotes all accounting systems proposed to cope with the impact of price changes on accounts.

3. Several South American countries, which have experienced high and sustained rates o' inflation for decates, have for some time operated systems of inflation acounting (e. g. Brazil since 1964, Chile since 1975, Argentina since 1979). More developed countries, such as the USA the U.K. and Australia, have all been involved in experimentation with inflation accounting systems in recent years.

Yet, Greece, which has also experienced high rates of inflation (e.g. average annual increase in prices generally of 19.1 % in the period 1976— 1987), has made no attempt[4] to address seriously the problem of financial reporting under inflationary conditions, despite the major implications[5] which inflation accounting» can have for investor, managerial and governmental decision making generally[6].

Of course in the last years the rate of inflation has fallen considerably at least in the developed countries. Mainly as a result of it the interest in inflation accounting has fallen as well. In leading countries in the development of inflation accounting systems, such as the UK and the USA, disclosures of the impact of price changes on accounts were required for certain types of companies, but they are not required any more[7]. Hence, one could argue that an article on the proper choice of inflation accounting for Greece is not timely and ,hence, justifiable.

4. The only exception to this is the Conference on inflation accounting which was organized (in May 1982) by the Greek Association of Business Administration.

5. Being (at least intuitively) aware of the implications (especially as regards real tax burden) which inflation may have on accounting measures, in 1982 the Federation of Greek Industries called for the Greek Gonverment to appoint a committee *to* consider the inflation accounting issue and make recommendations. However, the Greek Gonvernment did not respond at all to that proposal.

6. For example, provided that indeed in the Greek case the inflation adjusted earnings are materially lower than the reporting (HC) earnings even if the monetary gains/losses are include- in the income of the period, then unions, being fully aware of the inflationary (illusory) profits, .might stop pushing for excessive wage increases. Also, managers might feel constrained to reduce dividends paid to shareholders (and profit to be paid to employees when profit - sharing schemes are in operation). Such cuts, in turn, would help to generate internal funds available for bu siness expansion. Additionally, provision (by inflation accounting) on the effects of price changes in budgeting an planning systems should enable businnessmen to make better arrangements re garding liquidity which in times of inflation seems to be one of the problems faiced bu companies (see Kirkman (1978) pp. 240 - 243) and, hence, protect their firms from business failure. Finally, inflation accounting as an imput to governmental decision making may lead government to take measures to relieve companies from the pressures of inflation (such as Liquidity pressures), and in general may lead government to re - examine its economic policy and associated regulatory constraints on prices, wages and taxes.

7. SSAP 16 (of the UK), Current CostC Accounting lost its mandatory status in 1985 whereas the Guidence Notes on SSAP 16 were withdrawn in 1986 (see Accountancy N. 1986, pp 153 - 158). Similarity SFAS No 89 (of the USA), Financial Reporting and Changing Prices, which superseded SFAS No 33 and its subsequent amendments, made non - mandatory the disclosure of inflation adjusted (i.e. current cost/constant pursuasing power) information (see Journal of Accountancy, M. 1987, pp. 130 - 131).

Yet, such an argument does not seem to be correct for three reasons :

First in the UK and the USA experimentation with inflation accounting is still encouraged because of the importance of the issue[8]. This shows that inflation accounting is not a dead issue. This is especially true if one takes in to account that inflationary times like the ones experienced in the 1970's may come again.

Second, the inflation rate in Greece has been high for almost 15 years. It continuous to be high, and there are are no good reasons to believe that it will fall drastically in the immediate future. Since inflation is one of the major problems Greece faces in the present time, it follows that inflation accounting is still of great significance for Greece.

Third, in the light of experience gained in countries which have practised (or are still practising) inflation accounting systems for a considerable number of years, this is perhaps the best time to examine the inflation accounting issue with respect to the Greek case.

Of the various alternatives proposed to cope with the impact of changing prices on accounts two have gained the greatest support: General Price — Level Accounting (GPLA) or Constant Purchasing Power (CPP) accounting, or General Purchasing Power Accounting (GPPA), on the one hand, and Current Replacement Cost Accounting (CRCA) or Current Cost Accounting (CCA) on the other. Although from the «solution choice set» some form of accounting which incorporates certain features of GPLA and CCA should not be excluded[9], «.. .the debate has often been expressed in terms of a *straight* (emphasis added) choise between CCA and CPP...» Hence, in the next section the relevance of GPLA rather than CCA to the Greek financial reporting is established.

8. In the USA the new statement No 89 provides measurement and presentation guidelines for disclosure. Moreover, firms are not discouraged from experimentation with other forms of disclosure.

9. In fact, for many people (especially for academician accountants) a hybrid of GPLA and CCA seems to be the appropriate solution (see, for example, Baxter, W. «Inflation : a hybrid of CCA and CPP Needed», *Accountancy*, S. 1985, pp. 119 - 120.

2. THE RELEVANCE OF GPLA TO GREEK FINANCIAL REPORTING

2.1. Introduction

Accounting is the product of its environment. Enviromental factors such as economic development, size and legal form of companies, degree of sophistication of users of financial reporting and so on influence the degree of sophistication of the accounting systems, the quantity and quality of disclosures an enterprise is willing (or obliged) to make, the accounting standards, principles and procedures applied, and so on[1*]).

Accordingly, the problem of what is the most appropriate inflation accounting system for Greece, which is addressed in this study, cannot de examined in the absence of the envirommental factors which influence accounting generally in Greece. In fact, in the absence of decisive empirical findings[11] regarding the superiority of each one of the two main alternatives, GPLA and CCA, the relevance of GPLA rather than CCA to the Greek financial reporting is established a priori on the basis of the superior correspondence between features of GPLA and features of the Greek setting. This is shown in the next sections. In the discussion which is made in these sections it is assumed that the reader is basically familiar with GPLA and CCA.

2.2 Small Size **of Firms**

The empirical evidence suggests that CCA is particularly unpopular witht the smaller listed companies (see, for example, Archer and Steele (1984). p. 350). This

10. For a comprehensive discussion about the environmental influence of accounting se, Arpan and Radebaugh (1981) Ch. 2.

11. As Whittington (1983), p. 94) points out «[t] his type of research is still in its infancy and has yet to yield decisive results». Indeed, preparers have still to learn how to accurately implement the «new» systems of accounting for price changes, especially CCA systems so that the users may consider them reliable and to rely on them tather than on HCA systems for decision making. Users have still to learn how to interprete and how to use the new information. Similarity researchers have still to learn from their mi stakes and from the limitations of their studies (methodological deficiencies which seem to have contributed a lot to the contradictory results obtained).

is so mainly because the additional costs and implementation.difficulties involved in preparing CCA information are greater, ceteris paribus, for a smaller company than for a larger one. Another reason should be the fact that the smaller the company the more owner—controlled its orientation is and, hence, the less the preference for CCA, according to what is said in section 2.3.

One of the most striking characteristics of the Greek manufacturing firms is their very small size. According to the 1978 census for manufacturing as a whole (included the handicraft industry) 5.2 persons on average were employed, versus 14.25 persons employed in the same year in Spain (see Instituto National de Estadistica ; Senso Industrial de Espana—1978) and 63,92 persons employed (on average) in the UK in 1977 (see Business Statistics Office; Business Monitor, Report on the Census of Production, HMSO, 1977 p. 246). Since then the situation has not changed basically.

Accordingly, it is very likely for CCA to be unpopular with Greek firms. In contrast, GPLA, may be favoured[12] by the Greek companies because, being based on HCA it presents less impelementation difficulties[13], better reliability, understandability, accountability, lower cost of operation than CCA, and it takes care of the ownership interests since under GPLA the emphasis is on earnings for the eauity[14].

2.3. Family - Owned Firms

In the case of management — controlled firms (i.e. usually large firms with diffuse ownership whose managers have considerable discretion in guiding the affairs of their firms) theorists largerly agree that managers give absolute priority

12. The majority of the smaller businesses of the UK responded favourably to GPPA when asked. For example, 86 per cent of them responding to the Sandilands questionaire thought that GPLA would be useful for determining «real» return on capital (Middelton, (1984), p. 110).

13. Basically the only implementation problem of GPLA is the classification of the balance sheet items into monetary and non-monetary, and especially the interpretation and presentation of *he monetary gains/losses. In contrast, CCA presents many implementation problems such as determination of the current cost of fixed assets, especially of used fixed assets, (Steele, (1985), p. 148, or Scapens et al. (1983), p. 129)., as well as the calculation of the net recoverable amount of an asset.

14. GPLA is based on a capital maintenance concept (i.e. financial capital adjusted for ge-

to the continuity and growth of the corporation because their onw present and future is intimately bound up with that of the (particular) corporation (Donaldson, (1965), p. 129). Therefore, they will exercise all their power to stay in business even if the business venture does not seem to be very successful from the owner's (shareholder's) point of view. Similarly Baxter, (1984), p. 405) argues that the notions «continuity» «maintenace of productive capacity» «staying in business» have an appeal to managers. These notions, however, are the central theme of CCA, as it is mentioned elsewhere in the according literature. Hence, it could be argued that, other things being equal, managers should prefer CCA to GPPA (and to any other inflation accounting system) for profit measurement if, as it is claimed, it is physical capital maintenance (and hence CCA[15]) which ensures continuity of the firm. This might be a reason why empirical evidence suggests that the large corporations (which are usually manegement-contrclled firms) support CCA more than the small corporations (Archer and Steele, (1984), p. 350).

In contrast, in the case of owner - controlled firms (i.e. firms whose management is in the hands of the owner-shareholder) the main objective, the paramount goal for a rational owner is (or at least should be) maximization (or optimization) of the value of owner's capital invested in the business[16], not maximization (or oprimization) of the entity's physical capital, and consequently not continuity of the firm per se. This is because the owner is a real person. As such he is a qua consumer and, hence, he is indiferent to quantity changes given constant values (Sterling, (1982), p. 35). His demand is not for physical units but for units of money (and in inflationary times his demand should be for general purchasing power adju-

neral price-level changes) whereby profit of the period is what can be distributed after the GPPA - adjusted shareholders' capital has been maintained.

15. Of course, GCA can incorporate financial capital or physical capital depending on whether holding gains/losses are included or not in current cost income. However, all the CCA pronouncements favour the physical capitalmaintainance concept explicitly or implicity. Hence, the CCA model and the physical capital maintenance concept are interwined unfortunately.

16. In this respect the Study Group on the Objectives of Financial Statements, appointed in 1971 by the American Institute of Certified Public Accountants argued that the primary goal of every business firm is to increase its monetary wealth so that in the long run to return the maximum amount of each to its onwers.

sted units of money[17]), which enable him to obtain a variety of goods. Continuity (and growth) of the business venture should be of prime interest to the owner of the firm if and only if the business in its present form succesfully serves the paramount goal; if not, it may be to his interest to wind it up. Hence, the rational owner (or shareholder) should prefer financial capital adjusted for general price - level changes as a benchmark for measuring income (i.e. business success) and ultimately he should prefer GPLA to CCA.

In the Greek case firms are family owned and hence owner controlled. Moreover, as argued by Psilos, Greek industrialists «...are generally inclined to indulge in conspicuons consumption» (emphasis added) (Halikias, (1979), p. 197), rather than to reinvest their profits in the business. Thetefore, ceteris paribus, for income measurement the Greek businessman, being primarily a consumer, should prefer GPLA to CCA, which is interwined with the physical capital maintenance concept.

2.4. Stage of Development of Greek Accounting Profession and management

With the exception of mainly a few Dutch companies, CCA was an entirely «new» accounting system up to 1970*s, it is still unfamiliar for the majority of firms around the world. Also, this system lacks a theoretical foundation, of general applicability (Ma (1982) pp 195 - 234) many issues of it remain unsettled (i.e. backlog depreciation and gearing adjustment), and there are many implementation problems! as mentioned. After several years of experimentation in developed countries such as the UK and the USA this system has been abandoned by the majority of companies on the grounds that it is too complex to understand and too subjetive or inappropriate and unreliable (Archer and Steele (1984), p. 350, and Baxter, (1984), p. 403).

When this is the case for countries with sophisticated accounting profession and management as regards acceptance of CCA, one would expect acceptance to be less likely for Greece. This is because of the low quality of the Greek accoun-

17. As pointed out by Keynes many years ago, «(a) man doses not value money for its own sake but for its purshasing power - that is to say, for what it will buy. Therefore, his demand is not for units of money as such, but for units of purshasing power. Since, however, there is no means of holding general purchasing power, except in the form of money, this demand for purchasing power translates itself into a demand for an «equivalent» quantity of money» (Keynes, (1930), p. 53.

ting profession[18] and management[19], the conservatism which characterizes the Greek business community, and the lack of any guidance on behalf of the Greek accounting standard setters (i.e. the SOL) with respect to inflation accounting[19], and to CCA in particular. Hence, the chances for this «new» complex, subjective, and still experimental system to be voluntarily adopted by the Greek companies are minimal; only the government might imposes it, and politically this seems an unlikely prospect. But even in such a case (i.e. imposition by government), there are considerable doubts that this system would be workable and would serve the purposes it is intended to serve given the unsophisticated accounting and management personnel of Greece.

In contrast, GPPA is an objective, reliable, and easily, verified accounting system. Being based entirely on HCA, its implementation and understanding of its results is not expected to pose many problems to Greek accountants and managements, though familiarity with GPPA and relative guidance for its imlementation is also lacking in Greece. GPPA is almost «ready to go» in the sence that there are almost DO unsettled issues, as is the case with CCA, Basically, the only serious unsettled issue is the nature and treatment of the monetary gains/losses

18. This is reflected in the fact that there is almost no writing or articles in the few business magazines on importatn accounting issues, such an accounting for price changes, cost allocation , methods of inventory valuation etc., except fori artices refering *to* tax accounting issues. It is also reflected in the fact that (due *to* the pervasiveness of the legalistic approach to accounting almost no distinction in made between financial and tax accounting. Finally, it is reflected in the fact that with the exception of the Institute of Certified Public Accountants (SOL) there are no widely respected accounting associations which enable people wishing to make a career in accounting to obtain professional qualifications of high calibre, and therefore to secure a truly professional status.

19. With respect to the low quality of management and the conservatism of Greek businessmen Halikias writes that: «___most of the existing larger industrial enterprises, to which bank finance is more easily accessible, are not in a position to single out and exploit new opportunities for development, or they might not be interested in exploiting such opportunities. Many of these firms have persevered with their t r a d i t i o n a l (emphasis added) activities and are not capable of, or even interested in, adjusting to changes in the technological conditions or to new market requi rements» (Halikias, (1978), pp. 193 - 194).

20. Because of the lack of any guidance on behalf of the SOL or any other Greek accounting association with respect to accounting for price changes, a big Greek cement company stoppep its efforts to estimate the effects of price changes (i.e. GPPA and CCA) on its account when it encountered (insurmountable (especially for implementing CCA) problems. (Source : personal interview).

(i.e. accounting validity of these gains/losses and appropriate place to report them)[21].

Of course, it can be argued that the lack of popularity of CCA even in the well-developed countries is due to the difficulty of absorbing a«new» technique quickly. With the passing of time familliarity with it will be gained and the now serious implementation problems will be resolved. However, LTFO required decades to become familliar and somewhat acceptable in the Anglo-American countries (Baxter, (1984), p. 408). Though permittable by law, it is still not applied by Greek companies, despite its obvious tax advantages in recent times of considerable price changes. Given the conservatism and the unsophisticated accounting and management setting of Greece, it would likely require decades for Greek companies to become familliar with CCA and accept it, if they would ever accept it.

2.5. **Lack** of Use Greek of Accounting **for** Internal Decision **Making**

It has ben argued that one of the most important merits of CCA is its use for internal decision making and especially for pricing policies. However, in Greece accounting is seldom used for internal decision making[22] Standard cost systems as well as budgeting and planning are seldom in operation. Besides, the strict price . control imposed by the~Greek governement leaves little room for price - setting considerations.

Therefore, CCA as a system suitable for internal decision making is of little appeal to the Greek companies. Of course, from this does not follow that, in contrast, GPPA would have an appeal to the Greek firms. However, it surely precludes an important asserted merit of CCA of being relevant to the Greek case. Consequently, it weakens the case for CCA at the expense of GPPA, and of any other inflation accounting system to which CCA is claimed tobe superior tn this respect.

21. For example, in view of some comments on the Exposure Draft of SEAS No 33 about the usefulness of the monetary gains/losses the Board concluded that these gains/losses should be shown sepa.rately and not as part of income from continuous operations (SEAS No 3ΰ, ρ. 75).

22. The main purpose of keeping accounting records in Greece is to comply with the requirements of the tax authorities.

2.6. Pervaasivenes s of the Legalistic Approach

Expected relief from taxation is one of the implicitly or explicitly cited reasons for preference for CCA as regards external financial reporting, the so called tax relief hypothesis, (see, for example, Watts and Zimmerman (1980), p. 106. Accordingly, it is argued in the accounting literature that «[t]o succeed a system on inflation accounting must be acceptable for tax». (Baxter, (1984), p. 408). This is especially true in the Greek case where there is almost no distinction between financial and tax accounting.

The theoretical as well as the empirical evidence for the time being does not support CCA as a basis for taxation (see, for example, Grinyer and Nixon, (1985), This is so mainly because of the subjectivity of CCA, its complexity[33] and the lack of general as well as uniform application by firms. In the Greek case, in particular, the chances for CCA to be accepted for tax purposes seem to be minimal because the subjectivity and complexity problems of CCA will be enlarged due to the low level of development of Greek accounting and auditing. The adoption of CCA by the small Greek companies, given the unsophisticated accounting personnel, would open a Pandora's box of verifiability problems.

In contrast, the chances of GPPA being accepted for tax purposes in Greece should be much greater. This is because GPPA, being based on HCA is objective reliable, applicable to all firms under whatever circumstances of price changes' less complex to implement and audit than CCA.

2.7. Government Unwilligness

There are three reasons which seem fo suggest that the Greek government would be reluctant to support CCA rather than GPPA, if an accounting system **for** changing prices was considered desiderable due to high rates of inflation experienced in Greece. These reasons stated in order of there importance, follow-below.

23. In the empirical study by Archer and Steele (1984) it was found , among other things, that CCA was considered by many of those practicing CCA that the system was complex or subjective, unreliable and misleading; the technical difficulties of CCA had been circumvented rather than solved satisfactorily, and therefore CCA information was considered to be of poor quality. In general CCA numbers are considered by many as a garbie version of HCA numbers (e,g. Beaver et al. (1983)).

(a) Monopolistic or oligopolistic manufacturing industry

How selling prices are actually determined is a controversial subject. Accountants often suggest that costs are the most important factor in price setting. On the other hand, economists suggest that prices are determined by market forces. In any case, in a monopolistic or oligopolistic situation, the supplier would be more inclined to increase prices if his accounting records show considerable increases in cost prices than he would be under a situation of high competition (Kirkman (1978), p. 236). Hence, under a monopolistic or oligopolistic situation CCA may cause the so called cost - push inflation.

In the Greek manufacturing industry an oligopolistic situation prevails (Halikias, (1978), p. 202). Therefore, it should be very unlikely that the Greek goverment, which tries hard to contain inflation and has supported price control systems even in times of price stability would be willing to support a system which encourages price increases. In contrast, GPLA does not mandate excessive price increases since there may be specific price increases but not general price increases. Consequently, GPPA should have greater chances than CCA to be accepted for external financial reporting by the Greek government.

(b) Social considerations

The physical capital theory and, hence, CCA, by encouraging price increases[24] raises a social issue since price increses have a bad effect on the consumer's budget. Past experience shows[25] that the Greek government has always been on the side of the consumer in times of sharp price increases, and it has forbidden priceincreases before the pipeline of stock at the ealier cost had been exhausted. Hence, and given the oligopolistic situation prevailing in Greece, it is rather unlikely the Greek government would support an accounting system whose underlying philosophy leads to a conflict with the consumer.

24. One of the main assertive merits of CCA is that it aids price policy. For example, as Sterling ((1982) p. 14) points out SFAS No 33 «___alludes to the possibility of selling prices being closely related to current costs».

25. When the last devaluation of the Greek currency took place in October 1985, heavy penalties were imposed on those businessmen who had raised the selling psices of imported goods (such as cars, t.v sets etc.) bought before the devaluation of the Greek currency.

In contrast, GPPA does not mandate excessive price increases, as mentioned, and what is more important, GGPA is not characterised (as is the case with CCA) by a philosophy which reverses the «cause and effect» pattern[26]. Price increases due to increase in the inflation rate are based on a real fact (i.e. increase of prices of final products generally. Hence, they should become more acceptable by people and government than price increases which are based on hypothetical events; that is, increases in the finished goods produced by a firm (or industry) due to increased replacement costs of fixed assets which may not be replaced at lower costs than those prevailing at the time of sale of the finished product. Therefore, in this respect GPPA as an accounting system for price changes should be more acceptable by the Greek government than CCA.

(c) Formulation of incomes policy

Greece has introduced effective from 1982, the indexation of wages anf salaries on the basis of the consumer price index. In view of that indexation, GPPA as a system for profit determination might be preferred by the Greek government for the reasons which are explained below.

Firstly, both employees' and owners' income, which are the company's most important stakeholders, will then be determined on a common basis; that it,, by taking into account inflation. Such a common basis should help government in its efforts for a better distribution of business income among the company's stakeholders. For example, if in a given year or in a number of years the owners' profit expressed in units of general purchasing power is greater than in the previous year(s), then government may decide to redistribute some of the extra profit made by the owners through the imposition of a special assessment tax, or to increase the lower level of wages. By the same token, if the profit of owners is low then government may exercise all its power to persuade the unions and especially the General Confederation of Greek Workers not to demand excessive wage increases.

Secondly, a common basis for employees' and owners' income determination may help negotiations between the General Confederation of Greek Workers and

26. According to the physical capital theory, selling prices should reflect the inlreasse in current replacement cost so that the firm gains the same imrease in physical capi"al (the same profit) that would have been if no change in purchages prices had occured. This, however, seems to be wrong from a consumer's point of view since it reverses the «cause and effect» pattern (see Milburn, (1982), pp. 98 - 99).

the Federation of Greek Industries regarding the National Collective Labour Agreement signed each year by them and, hence, avoid workers striking. Negotiations between unions and industrialists might be helped in the sense that if it is true that the wage claims of the unions are mainly based on the shrinkage of the general purchasing power of their wages due to increases in the consumer price index, then proprietors could use the same argument (i.e. shrinkage of the general purchasing power of their income) in order to persuade the unions against excessive wage increases. Such an argument advanced by the industrialists qua consumers should de more pervasive[27] than an argument for no or not excessive wage increases based on a decrease in company profits as measured by use of a specific (industry or company) price index, especially if the latter index rises more rapidly than the Consumer Price Index.

2.8. Diversification of Business Funds

As mentioned previoudly in Section 2.3. the Greek businessman is primarily **a** consumer rather than an investor. As such an index which measures the changes in prices in general, like the Consumer Price Index, should be of relevance to him. However, another characteristic of the Greek industrialist is his propensity to divirsify his capital resources among various business activities instead of using **them** solely to develop his main industrial activity toward optimum size (Halikias, (1978), pp 199-201). Hence, an index which measures the changes in prices of investment goods in general (i.e. a general investment purchasing power index) should be of relevance to him, too.

A general investment purchasing power index does not exist, at least for the time being, even in the weel-developed countries. From the indices available the consumer price index, which is used in GPPA, should be a better surrogate for **a** general investment purchasing power index than a specific (company or industry) price index, which is usually used in CCA. This is because the prices of the investment goods generally are rather better reflected in the prices of the final goods which are included in the consumer price index (a general index) than in the prices of certain specific goods. Therefore, even if not only maintenance of general purchasing power but also maintenance of general investment purchusing power are relevant to Greek businessmen in times of price changes, then, again, GPPA should suit them better than CCA as regards profit measurements.

27. Ceteris paribus, you cannot prove someone's argument wrong if this argument shares the same basis with yours.

2.9. Heavy Reliense on Borrowing

According to some commentators, in the case of highly leveraged firms **GPPA** may give a misleading impression as regards profitability since the monetary gains computed under GPPA would be high[28]. Moreover it is argued that, since the monetary gains/losses are not pocket money[29], businessmen would oppose GPPA if these gains were included in the profit statement for tax purposes.

In the Greek case monetary gains should be high because of the heavy reliance of the Gresk firms on borrowing. Hence, at first sight it seems that this characteristic of the Greek setting does not favour GPPA. However, this should not be necessarily so for the following reasons :

First, since Greek firms rely heavily on short - term loans rather than on long - term loans monetary gains could be high under CCA too because of the monetary working capital adjustment.

Second, it is not necessary for the monetary gains/losses to be part of the profit from continuous operations[30] so that for the profitability ratio computed on the basis of that income to be high and perhaps misleading.

Third, it is not necessary for the monetary gains/losses to be part of the taxable income as well[31] which could make GPPA unattractive to Greek businessmen.

Four, in times of inflation the interest payable usually increases in order to compensate for the loss in the general purchasing power of money. Since this interest is tax-deductible, the gain from borrowing during inflation should be taxable too, especially if such a gain may be distributed, as it is argued (see Petri and Shawky, (1983)). The sound businessman, who will repay his loans with «cheaper» money should not oppose GPPA if these monatery gains are «.. .an offset to reported interest expense (.)» (Davidson et. al. (1976), p. 108).

Supposing, however, that the monetary gains/losses were taxable and because of it Greek businessmen would oppose GPPA and favour CCA instead. In such

28. TheHC and the GPP earnings per share of Grand Metropolitan in 1974 were 7.3. p. and 35.2 p. respectively (Middelton (1984), p. 749.

29. In the sence that they constitute gains/losses in terms of purchasing power of money» not gains/losses in terms of money per se.

30. Thus, in SFAS 33 these gains/losses are reported separately from income from continuous operations.

a case then the Greek government would have a good reason to support GPPA than CCA. This would be so because GPPA would become (in the government's hands) a good instrument for reforming the now unfavourable financial structure of the Greek companies[32]. To be specific, if firms with high leverage would have to pay much more money in taxes than firms with low leverage, solely because of the monetary gains, then they might decide to retain more industrial profits rather than to resort to borrowing from credit institutions; or they might decide to resort to the capital market to raise equity capital. The resort to the capital market would help the development of that market and, concurrently, it would help Greek companies drop their narrow family character which is at least partly responsible for the unsatisfactory development of the Greek corporate manufacturing sector.

Accordingly, the heavy relience on borrowing works in favour of GPPA rather than in favour of CCA; or at least it favours as much CCA as GPPA.

2.10. Costs Considerations

The costs involved in implementing CCA are higher than those involved in implementing GPPA for two reasons mainly: (a) The costs of constructing internal indices (i.e. development and running costs) are present only in implementing CCA. (b) The education costs, that is the costs of educating preparers, auditors and users of CCA inflormation on how to prepare and interpret it, seem to be higher for CCA than for GPPA. This is because CCA, being a «new» system, has more serious implementation problems to solve than GPPA, which is entirely based on HCA. That the costs of implementing CCA are higher than the costs of implementing GPPA should be especially true in the Greek case due to the lack of well organized and well—equipped accounding departments, the low quality of Greek management, the almost complete absence of published specific price indices. Hence, it seems very unlikely that the Greek firms would be willing or even able to bear the additional costs involved in implementing CCA given, addi-

31. Under CCA taxes are usually imposed on current cost operating profit minus interest payable. That is, the gearing adjustment is excluded from taxes (see for example, SSAP 16).

32. The leverage of the Greek firms is much higher than that of the Anglo - American firms.

tionally, their low profitability[33] and the lack of any familiarity with **CCA** (e.g. among other things calling in of experts from abroad is needed in the first **year** of implementation of CCA).

Of course, it could be argued that the costs of implementing CCA are about the same with those of implementing GPPA when specific price indices prepared by government are used. However, given the almost complete absence of specific price indices in Greece, there is considerable doubt that the Greek government which up to now has shown no interest at all in the accounting for changing prices issue will be willing to bear the costs involved in the construction of such indices.

3. FINAL CONCLUSION AND RELEVANCE **TO OTHER COUNTRIES**

In the previous section it was demonstrated that GPLA seems particularly preferable to CCA in the Greek case because of the correspondence of (almost) each one of the features of GPLA with those of the Greek setting. It was made clear as well that even if CCA were shown empirically to be more useful than **GPLA** it still remains impractical for Greece given the present Greek setting.

Beyond immediate significance this finding may extent to other countries with environmental settings which resemble the Greek setting. Such countries are predominantly the developing countries. These countries, like Greece, are rather poor, agrarian countries, their industries are on average rudimentary, characterized by a small scale of operations (and therefore low level of business complexity), low profitability, low levels of literacy and therefore conservatism» poor internal management and control, and poor accounting systems (see, for example, Holzer et. al. (1984), Chapter 19). Also, in these countries the presense and role of investors is weak since the firms are usually in the hands of a few people who dominate the industries and run their businesses by and for themselves. Finally, the rate of inflation is high in these countries in comparison to that of the developed countries, there is usually at best one capital market and there is **a** mutual distrust between business taxpayers and authorities[34].

In particular, the conclusion drawn here about the relevance of **GPPA to**

33. During the period 1973 -1981 the average ratio of the profits to total funds for the manufacturing corporate sector was 2.4 % (Source : Federation of Greek Industries, the State of Greek Industries series). Since then the profitability picture has not changed basically.

Greek financial reporting might be applicable to Italy, Spain and Portugal, all of them members of the European Economic Community. This is because Spain and Portugal have experienced about the same levels of economic development as Greece, (i.e. agrarian countries). Private ownership of firms and a small scale of operation (especially in Portugal) are pervasive. As regards Italy, the legalistic approach to financial reporting is pervasive as in Greece and Portugal (see Arpan and Radebough (1981), p. 42), the accounting profession is not well developed, (see Lafferty, (1975), pp. 186- 189). Like the Greek and Spain companies the Italian quoted companies are of a family character and rely heavily on borrowing. In fact, the relience on borrowing of Italian quoted companies is heavier than is the case for Greek companies (see OECD, Financial Statistics, series).

34. Some times the similarities between developing countries are striking. Thus, in Perer's article (1975) the similarities between Sri Lanka's setting and Greek setting are very strong (i.e. poor agricultural countries, firms in hands of a few people who are reluctant to have their shares quoted, one inefficient market, association of capital market operations with gambling, little public information about investment opportunities, accountants which are more experts in law than in accounting, mutual distrist between taxpayers and authorities and so on. Having said that, however, does not mean that strking dissimilarities between the same countries do not exist, too, since of Perera mentions in this articles (p. 86) «a particular environment is unique to its time and locality». Hence, a conclusion drawn about one developing country does not necessaricly mean that it is applicable to another developing countru as well.

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