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## ABSTRACTS

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The following abstracts are short synopses of articles appearing in the Arabic part of the Review. They are summarized here for the benefit of those who cannot read Arabic. In a like manner, each major, English or French article is presented as a short résumé in the Arabic section.

### THE POTENTIAL OF NATIONAL INCOME ACCOUNTING TECHNIQUES FOR THE EVALUATION OF BUSINESS RESULTS

*By : Dr. Hussein A. Sharaf \**

General price-level statements serve quite a useful purpose from the viewpoint of stockholders, prospective investors and other external users - These statements are prepared through the application of conversion factors calculated on the basis of Gross National Product Implicit Price Deflator to historical accounting data.

The purpose of this paper is to examine the reliability of the adjusted accounting data - thus calculated - for managerial purposes and to investigate the potential of concepts and techniques developed in national income accounting for management evaluation of operating results and the formulation of business plans during periods of price-level changes.

The concept of "gross national product" is explained with particular emphasis on its function as a tool for evaluating the results of economic activity and the formulation of economic and fiscal policy. The techniques adopted for deflating GNP and its components are analyzed. Reference is made to the concepts, deflating techniques, and classification criteria in several systems of national income accounting. These include the U.K., the U.S.A., and the U.N. systems of national

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accounts. The assumptions underlying these concepts and techniques are discussed and the significance of each classification criterion is evaluated. Research indicates that these techniques and criteria have been developed over many years of study and scientific research.

The writer outlines the rules provided by the Pronouncement entitled "Financial Statements Restated for General Price-level Changes" issued in 1969 by the Accounting Principled Board \*. The concepts introduced by this pronouncement are explained. The assumptions underlying the computation of the conversion factors for the various items are discussed. The writer comments upon the use of the Gross National Product Implicit Price Deflator - the index recommended for the adjustment of all historical values in conventional financial Statements.

It is the writer's opinion that the application of the GNP Implicit Price Deflator for the adjustment of conventional statements serves quite a useful purpose from the viewpoint of investors and other external users of financial statements. There is question, however, about the significance of the adjusted values for managerial purposes during periods of price-level changes. It is questionable whether management can rely upon the values thus calculated for the evaluation of operating results, the planning of financial investments, and making decisions for the renewal or replacement of fixed assets.

It is explained that production management in a given firm is responsible for the performance of a set of industrial operations at an increasing rate of economic efficiency. Consequently, management becomes particularly interested in observing the changes in the prices of a certain number of inputs - or their substitutes - required for these operations. Such information is essential for evaluating production plans and for reducing production costs.

Similarly, sales management is responsible for the promotion of

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(\*) The Senior technical body of the Institute of Certified Public Accountants, authorized to issue pronouncements on accounting principles.

a given sales-mix. Consequently, it becomes particularly interested in observing the changes in the prices of a certain number of commodities or their substitutes. Such information is equally essential for evaluating the marketing plans and maintaining the competitive position of the firm.

Research indicates, however, that there are considerable differences between the GNP implicit price deflator and the implicit deflator for each of the main groups of durable goods, non-durable goods, and services. The application of conversion factors based on the GNP deflator for the adjustment of gross sales, raw materials, production costs and operating expenses may be inadequate for managerial purposes.

The writer suggests that gross sales should be classified into commodity and service groups according to the classification criteria adopted for the measurement of the Gross National Product at constant prices by the net output method. The same classification should apply to inventories, raw materials, and other inputs. Adjustment of accounting data measured in terms of historical monetary units should be effected through the application of the implicit deflators relevant to each commodity group. These are developed on a quarterly basis for the preparation of national income statistics, and, hence, are available for managerial use. The writer explains that the actual effects of price-level changes upon the revenues realized and the costs incurred can be clearly isolated, thus providing proper data for managerial appraisal and planning.

Research indicates that the adjustment of the historical value of short-term and long-term investments does not produce useful data for management purposes. It is the writer's opinion that evaluation of the investment policy should be based upon the net outcome of :

- ( i ) the return accrued on invested funds,
- (ii) the opportunity cost of alternative investment, and
- (iii) the gains or losses resulting from price-level changes during each accounting period.

The writer explains that price-level adjustment should not be applied in evaluating the results of investment in the stocks of subsidiaries and affiliated companies.

With respect to fixed assets the application of conversion factors based upon GNP implicit price deflator for the adjustment of both the original cost and the accumulated depreciation of all types of assets does not produce adequate data for maintaining the efficiency of capital invested in these assets. Research indicates considerable variances between the GNP deflator and the implicit deflators of the various asset groups. It is suggested that the conversion factor for each category should be based upon the relevant implicit deflator. Again, these deflators are regularly calculated for the development of national income statistics. Not only does each deflator reflect the effects of general price-level changes but it also reflects the impact of technological improvements and increased productivity of the currently produced assets. These are the factors actually inherent in management planning for maintaining productive and economic efficiency.

It is concluded that the techniques adopted in national income accounting possess high potential for the evaluation of business results and the formulation of managerial plans during periods of changing price-levels.