

Societies and Inflation

Up the Creek - Without Liquid!

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In the current period of rapid inflation, the Movement has to take a serious step towards implementing "inflation accounting", and cease to delude itself that it is making satisfactory "profits".

The fictitious element of "paper profit" caused by stock inflation has been acknowledged in the November Budget, but not in societies' accounts. The effect of under-depreciation of assets which falsely increases our so-called "profit" is not yet fully appreciated.

The following illustrates the need for depreciating at REPLACEMENT VALUE rather than the present practice of depreciating at historical cost:

	£
1969 Cost of vehicle	2,500
1974 Cost of replacing vehicle	4,900
Cash retained in business (Depreciation 20%)	2,500
NEW CAPITAL REQUIRED	2,400

Unless profit retention is equal to the depreciation charge new capital will have to be raised, and this will merely renew the asset and allows nothing for expansionary development.

The same principle applies in varying degrees to Buildings, Fixtures, Machinery and Plant.

The practice of some societies of not depreciating Buildings mystifies me, and two questions arise:

1. Where does the cash come from to re-build the premises when they are obsolete?
2. At some point in its life a building ceases to appreciate in value and decline takes place. Is "double depreciation" then charged?

The traditional Co-operative rates of depreciation must be discontinued and the following substituted:

Buildings	4%	per	annum
Fixtures	16%	"	"
Machinery	16%	"	"
Vehicles	33%	"	"

(Even after the asset is "written off" depreciation should continue and be credited to an Assets Replacement Reserve.)

This suggestion is only an acknowledgement and not a solution of the problem, but unless higher depreciation rates are used the Movement will find that DCF will mean DISCONTINUED CASH FLOW and we will truly be up the creek without liquid resources.