Evaluating the implementation of financial accounting through its conceptual framework - advantages and obstacles-

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Abstract:

A decade after its implementation, the study is now focused on evaluating the benefits of the financial accounting system, while at the same time highlighting the main obstacles that have prevented its full application. It should be noted that this evaluation may be partial due to the medium duration considered (less than 14 accounting cycles or 13 budgets). However, this does not prevent us from highlighting some facts that can be used to improve and develop this system.

The study reaches several key conclusions, the most significant of which is the absence of a high-quality disclosure culture financial information, which prevents users from making informed decisions, as this information is largely focused on tax purposes. This has a negative impact on the role of accounting as a tool for economic decision-making in the Algerian business environment.Consequently, the financial accounting system has the potential to be a driver of development and contribute to the growth of institutions in particular and the national economy in general, provided that it is developed, updated and evaluated on a regular basis.

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1. Introduction:

The Financial Accounting System was established by Law 07/11 of 2007 and became effective in 2010, a period of fourteen years. It is of significant importance to emphasise that the implementation was postponed by a period of three years due to the lack of preparedness of a considerable number of public and private economic institutions, as well as professionals, including experts, auditors, and certified accountants. There was considerable reluctance to embrace this new accounting system, which was introduced following the National Accounting Plan, coupled with an absence of sufficient training and preparedness to adopt it. Consequently, this gave rise to resistance among the professional community, resulting in a schism between proponents and opponents.

In our view, highlighting the benefits or enhancements offered by this system has brought and the obstacles and barriers that have prevented its implementation can only be partial, given the average period in which the evaluation will take place (14 accounting cycles), but this does not prevent us from identifying some facts that can be used to improve and develop this system .

1.1. Problematic: After this brief introduction, the main question of this research paper is as follows :

What enhancements has the Algerian financial accounting system introduced to improve the disclosure of high-quality financial information that benefits its users in their decision-making?Then, what are the main obstacles and barriers to its application in the manner intended؟

In order to answer this fundamental question, we believe it is necessary to address the following issues:

•This section provides a concise account of the circumstances that led to the establishment of financial reporting.

•This paper examines the relationship between the accounting system and International Financial Reporting Standards (IFRS).

•This paper examines the new approach introduced by the Financial Accounting System and the challenges organisations encounter in effectively implementing it.

2-The connection between the Financial Accounting System and International Financial Reporting Standards:

2.1.A concise account of the circumstances that gave rise to the establishment of the financial accounting system.

The development of the financial accounting system was overseen by the National Accounting Council (CNC), which is associated with the Ministry of Finance. A group of French organizations was commissioned to assist in this endeavor, along with the National Order of Accountants and the National Chamber of Auditors. To oversee the work, a special committee and a team of Algerian accounting experts were formed.

Preparatory work began in the years 2000-2001, and the first draft of the financial accounting system was presented in April 2002, closely following the French general accounting plan. It is worth noting that the working team consisted mainly of four Algerian accounting experts, It took the submission of seven drafts before the final version of the accounting system was finalized.

The primary goal was to establish a modern, unified financial accounting system based on international accounting standards (IAS-IFRS), while taking into account the specific social and economic conditions of Algeria at that time. The final project of the financial accounting system was completed in July 2004 and was officially issued in 2007 through Law 07-11 dated November 25, 2007, Executive Decree No. 08-156 dated May 26, 2008, and the ministerial decision of July 26, 2008. It came into effect on January 1, 2010.

Before implementing the financial accounting system, the National Accounting Council organized several training and awareness workshops on the new concepts and accounting rules introduced by the system. These workshops took place in major cities, including Algiers, Oran, Annaba, and Constantine. (Mohamed , 2014).

2.2. The relationship between the accounting system and international accounting standards:

It is important to note that the Algerian financial accounting system was derived from the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) in force in April 2004, with some exceptions relating to certain provisions of these standards that could not be applied due to the specificities of the Algerian economic environment, particularly with regard to the accounting treatment of financial instruments.

However, it should be emphasised that the financial accounting system has not been updated since its introduction in 2004, whereas international accounting and financial reporting standards have been constantly evolving, with significant improvements reflecting the ongoing developments and practices of international accounting bodies. As a result, the changes made over the last fifteen years or more have not been incorporated into Algeria's financial accounting system.

It is therefore essential to return to the original objectives, which were to establish an accounting system in line with both national and international economic realities. This requires updating and renewing the system to take account of the latest developments. (Djelloul , BOUBIR;, 2015).

3. Advantages and challenges of Algeria's transition to an accounting system based on international accounting standards:

Prior to examining the rationale for implementing a financial accounting system that aligns with International Financial Reporting Standards, it is imperative to emphasise the concept of international accounting convergence. This convergence is regarded as a pivotal moment in the development of accounting practices, with ramifications for numerous countries worldwide, including Algeria.

3.1The principle of international accounting convergence:

International accounting convergence involves the implementation of a framework of globally accepted accounting standards intended to promote consistency in accounting practices across different Organizations. (مداني ب.، 2006)

3.2. Benefits of adopting an accounting system based on International Financial Reporting Standards:

In response to global economic developments and a desire to increase external openness, Algeria transitioned from its national accounting plan to a financial accounting system starting in 2010. This change aimed to align Algeria's accounting practices with the global financial system, ensuring the integrity and accuracy of information through transparent reports that accurately depict the financial status of institutions. Ultimately, this transition sought to enhance their performance, particularly in the accounting domain. The primary reasons for adopting an accounting system based on international accounting standards can be summarized as follows:

- Establishing a single global financial language applicable to the financial statements of all organisations worldwide, which increases the transparency and credibility of financial information, making it more reliable internationally (ثناء، 2002-2003) :
- Facilitate the comparison of financial statements prepared by publicly traded companies in different countries.
- Facilitate stock exchange pricing processes for companies, thereby attracting and maintaining investor confidence.
- Align local practices with global standards, allowing for a more relevant framework that adapts to contemporary economic conditions.
- The principles and rules for recording transactions and preparing financial statements are clearly defined which serves to mitigate the risk of manipulation and streamline the audit process. Moreover, the new accounting system is intended to satisfy the requirements of both current and prospective investors by furnishing coherent and intelligible financial data that permits straightforward comparison.

3.3. Challenges in adopting an accounting system based on International Financial Reporting Standards:

Despite the benefits of international accounting convergence, there are several challenges it faces, including (نورالدين، 2009) :

- Environmental and cultural differences between countries.
- Variability in the content and objectives of national legislation.
- Weak or sometimes non-existent enforcement of agreed international accounting standards.
- The complexity of certain standards, such as those relating to investments, derivatives, financial instruments and fair value, which can lead to difficulties in understanding and subsequently applying them correctly.

- International accounting standards are issued as general guidelines, leaving the specifics to be determined at the national level. These standards typically address international issues deemed urgent by numerous nations, without necessarily taking into account the specific criteria that may be pertinent to the distinctive circumstances of a particular country or group of countries.
- Many countries do not have organised legislation for financial instruments, mainly because they do not have sufficiently efficient markets to generate reliable market values for accounting purposes.
- The tax-oriented approach in some countries, where the primary purpose of financial reporting is to determine taxable income or to provide information for national accounting purposes.

3.4. The new approach to the accounting system and its key challenges:

The implementation of the financial accounting system in Algeria represents a significant turning point in the accounting field, influencing professionals, academics, and managers alike. However, this new approach has faced various challenges related to understanding and adapting to the new concepts and rules for recording, evaluating, and presenting financial statements. While some of these issues have been partially resolved through training programs, many challenges remain, particularly concerning employee benefits, impairment testing, deferred taxes, and exchange rates.

Moreover, the impact of the financial accounting system extends beyond the accounting and finance departments responsible for the preparation of financial statements. It also affects a number of key areas within the organisation, including production management, human resources management, commercial management and others) Djelloul , BOUBIR;(2015 ،

It is also important to note that the nature of the challenges faced by institutions is linked to their size, which will be discussed in more detail below. (Yassine, 2016)

3.5. For small and medium-sized enterprises (SMEs):

A significant proportion of small and medium-sized enterprises (SMEs) lack the requisite administrative and financial organisation, which frequently results in their reliance on external accounting firms for the management of their accounts and the preparation of year-end financial statements. Consequently, these businesses tend to prioritise their tax obligations, with the application of the financial accounting system largely confined to the creation of the chart of accounts and the financial statements mandated by tax authorities, such as the balance sheet and profit and loss statement. Furthermore, the generation of additional reports is infrequent, and when they are produced, they are frequently not employed.

It is important to note that imposing a uniform accounting system on all companies, regardless of their size or whether they are listed on a financial market, may have negative consequences, especially for those who do not see any real benefit in preparing financial statements beyond a formal requirement. This encompasses reports such as the cash flow statement and the statement of changes in equity, which are not frequently utilised.

3.6. For large enterprises:

The implementation of the financial accounting system in large enterprises is relatively advanced, largely due to the engagement of managers and financial and accounting staff in training on the system. It is also crucial to acknowledge the pivotal function of auditors in guaranteeing that these organisations comply with the stipulations of the financial accounting system, through the certification of financial statements. (Yassine, Holding & groupe, 2016)

Nevertheless, it is essential to acknowledge the existence of several deficiencies in the audit procedures conducted by these auditors. These include the level of diligence, the content of the documentation, the quality of the reports, and the follow-up on written observations and reservations. Nevertheless, a considerable number of auditors and accounting experts consulted provided objective evidence of significant improvements. It is of the utmost importance that accountants engage in continuous training in order to remain abreast of developments in their field.

To illustrate the importance of this training, we can highlight three accounting issues with which many of our institutions continue to struggle: (Robert , 2016).

❖ **Depreciation of fixed assets:**

The financial accounting system views depreciation as an indicator of the consumption of economic benefits, with calculations based on the asset's useful life. At the conclusion of the accounting period, it is anticipated that organisations will undertake a review of both the estimated useful life and the depreciation methodology that has been applied. Nevertheless, in practice, a considerable number of organisations continue to adhere to the prescribed depreciation period or useful life for assets. This approach is at odds with the fundamental accounting principle of substance over form, which prioritises economic reality over legal considerations. Moreover, the most commonly employed depreciation method is the straight-line method, which is applied consistently to all fixed assets, irrespective of their technological sophistication.

❖ **Impairment of Values:**

Legally, all institutions subject to the financial accounting system or the actual system are obligated to assess their assets at the end of the year using both internal and external indicators.However, it is rare for institutions to implement adequate procedures to objectively determine these losses or impairments. This necessitates the involvement of specialized expert firms to provide accurate values that can be recorded in a reliable manner, free from any forms of speculation.

❖ **Impairment upon completion:**

This aspect pertains to construction organisations that rely on long-term contracts, which necessitate an assessment of potential losses related to incomplete long-term projects at the conclusion of each accounting cycle.

This concept is not readily comprehensible to enterprises, and the organisational structure of the completion function does not always facilitate the accurate and precise calculation of the costs of remaining work and the anticipated revenue from it. Consequently, the losses recorded do not always objectively reflect the expected or potential losses.

If we consider the financial accounting system to be applicable to all organisations that utilise it, the question remains as to the extent to which the financial statements prepared by managers and other economic and financial decision-makers are employed.

The financial accounting system serves as an economic and financial decision-making instrument for both institutions and investors. In the current economic climate, however, the maintenance of accounting is largely confined to the fulfilment of legal obligations. Without wishing to generalise, it is observed that the majority of private institutions, with the exception of those of significant stature, prepare their financial statements solely for the purposes of taxation. In contrast, public sector institutions submit their financial statements to the Board of Directors and the General Assembly. However, the review of these statements is often perfunctory in nature.

Furthermore, in an economic environment characterised by a lack of competition and efficiency in organisations, these indicators are not considered a primary concern, and thus the utilisation of financial information remains a secondary, or rather, a perfunctory matter.Ultimately, the economic development of a country will inevitably give rise to :

Opinion No. 01/2019: The accounting treatment of foreign exchange differences related to the liberation of capital in foreign currency.

- Opinion No. 02/2019: Offsetting reciprocal receivables and payables.
- Opinion No. 03/2019: Accounting for borrowing costs.
- Opinion No. 04/2019: Valuation of equity investments and accounting treatment of impairment losses.
- Opinion No. 05/2019: Date of agreement between the parties on the transaction and exchange rate.

4. Results and discussion:

The financial accounting system is a vital tool for managing an organization's financial affairs. Over the past 14 years of implementation, the impacts of this system have become evident in various aspects of financial and managerial performance. This article reviews the advantages achieved by the system, along with the obstacles encountered, through a comprehensive conceptual framework.

4.1. Advantages:

❖ **Improved Transparency and Credibility**

The implementation of the financial accounting system has enhanced the transparency of financial data. This is attributed to the use of clear accounting standards that require accuracy in financial reporting. This enhancement builds trust between investors and stakeholders, helping to attract new investments.

❖ **Standardization of Criteria**

The system has contributed to the standardization of accounting principles across both public and private sectors. This standardization facilitates the comparison between organizations, allowing for a more accurate and objective assessment of financial performance. For example, the adoption of IFRS (International Financial Reporting Standards) has helped achieve this goal.

❖ **Facilitated Decision-Making**

By providing accurate financial information in a timely manner, the system enables managers to make informed strategic decisions. Precise accounting data supports planning, budgeting, and risk assessment processes, leading to overall improvement in institutional performance.

❖ **Technological Advancement:**

The need to implement the financial accounting system has necessitated the use of modern technologies, such as advanced accounting software and financial information systems. These developments have increased operational efficiency, allowing companies to process financial data more quickly and accurately, thereby reducing human error.

❖ **Enhanced Compliance and Governance:**

The system aids in improving compliance with legal and regulatory standards. By adopting a unified accounting system, organizations can more effectively meet regulatory requirements, thereby reinforcing the principles of good governance.

4.2. Obstacles:

❖ **Implementation and Maintenance Costs:**

The costs associated with implementing the system are considered high, especially initially. Companies require investments in training, technological infrastructure, and software. These costs can be a burden for small and medium-sized enterprises, hindering their ability to adapt to the new system.

❖ **Shortage of Trained Personnel:**

The lack of qualified personnel remains one of the biggest challenges facing system implementation. Despite efforts to train accountants, the unavailability of necessary expertise can lead to ineffective use of the system, reducing its overall efficacy.

❖ **Organizational Challenges:**

Many organizations face obstacles in integrating the accounting system with other systems, such as risk management and compliance. This may cause delays in system implementation, preventing the realization of the expected benefits in a timely manner.

❖ **Resistance to Change:**

Employee resistance to change poses a significant challenge in system implementation. Employees may struggle to adapt to new methods, necessitating effective change management by senior management to ensure acceptance and successful application of the system.

❖ **Legal and Regulatory Constraints:**

Local laws and regulations may impose restrictions on how the accounting system is implemented, affecting companies' flexibility in financial decision-making. Therefore, coordination between government entities and companies is essential to achieve optimal results.

5. Conclusion

The goal of accounting is to provide a clear and accurate representation of entities through financial statements, which are essential for making informed economic decisions. However, the accounting practices applied during the implementation of the national accounting plan revealed several shortcomings, which necessitated reform in order to achieve various objectives, particularly in the economic sector. Despite the changes that have occurred in the accounting environment since the introduction of the financial accounting system, these modifications have largely been superficial, as current practices still do not reflect the true economic reality. The key issues can be summarized as follows:

- The lack of a culture of financial transparency, with accounting practices primarily focused on fulfilling tax requirements.
- Moreover, there is a gap between the commercial and tax regulations and the revisions made by the conceptual framework of the financial accounting system.
- The introduction of the financial accounting system in Algerian economic institutions has not led to a substantial improvement in financial performance. This is because these institutions have not considered the new philosophy that moves beyond simple treatments to dynamic accounting judgments. The transition to this

system was primarily concerned with modifying formats and adapting computer programs, rather than a comprehensive understanding of the associated evaluation and recording standards.

The adoption of the fair value concept faces several challenges in the context of the Algerian economy, including:

- The absence of regulated markets and reliable sources for obtaining this value.
- The costs associated with hiring experts for asset valuations.
- A lack of demand for accounting information in decision-making processes such as loan approvals and investments.
- The absence of internal accounting usage as a management tool for decision-making in most institutions, except for a few large ones.

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