

Accounting Disclosure within the Framework of the Financial Accounting System

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Abstract:

This investigation delineates the mechanisms of accounting disclosure as mandated by the financial accounting system, examining the theoretical dimensions encompassing the study's variables comprehensively.

The findings underscore that the practices of presentation and disclosure within the financial accounting system align with international accounting standards, achieved through the meticulous application of various financial statements endorsed by said system

Keywords: Financial Accounting System, Accounting Disclosure, Financial Statements

JEL Classification: M40 ; M41

Introduction

The dynamic landscape of finance and business has precipitated the evolution of accounting from a mere mechanism for internal accounting recording within enterprises to a critical conduit for disseminating essential information to its stakeholders. This paradigm shift has given rise to the imperative of accounting disclosure, now deemed a cornerstone accounting practice instrumental in facilitating informed decision-making. This evolution underscores the necessity for a robust framework encompassing stringent controls, norms, and standards that govern the architecture, presentation, and substance of financial statements on a global scale.

In this context, Algeria emerges as a proponent of such progressive policies, having instituted a novel financial accounting system that ensures the transparency and integrity of financial disclosures.

Research Problem:

This research endeavors to illuminate the processes and methodologies underpinning the presentation and disclosure of accounting information within the ambit of the financial accounting system. It posits the primary question:

How are accounting disclosures effectuated within the financial accounting system?

This central question begets several subsidiary questions, namely:

- What is a financial accounting system?
- What is accounting disclosure?
- How are accounting disclosures articulated within the financial accounting system?

Research Significance:

The significance of this research lies in its exploration of a topic of paramount importance to all accounting information stakeholders, internal and external to the corporation. It seeks to elucidate the methodology of presenting and disclosing accounting information under the financial accounting system's regime, particularly within the Algerian context.

Research Objectives:

This study is propelled by a set of defined objectives:

- To elucidate the financial accounting system as implemented in Algeria.

- To expound on the concept and practice of accounting disclosure.
- To delineate the methodologies employed in accounting disclosures within the financial accounting system.

Research Methodology:

To comprehensively address the research aspects and respond to the primary and secondary questions, this study employs a descriptive analytical method. This approach is aimed at a detailed description and analysis of the study's variables, tailored to achieve the delineated objectives.

Research Structure:

The study is segmented into three sections:

1. The Essence of Financial Accounting System
2. Accounting Disclosure
3. Accounting Disclosure within the Financial Accounting System

1- The Essence of Financial Accounting System Definition

In response to the global shift towards market economies and the imperative of international integration, Algeria has embarked on extensive economic reforms, notably revising its accounting infrastructure. This initiative involved a comprehensive reevaluation of the national accounting framework established in 1975, which had become increasingly inadequate, failing to meet the evolving international standards. This necessitated an update to harmonize it with the contemporary international accounting standards and regulations.

1-1- Definition of the Financial Accounting System

The financial accounting system is conceptualized through dual lenses:

- **From a Legal Standpoint:** As delineated in Law 07-11, dated November 25, 2007, in its inaugural article, the financial accounting system comprises an array of procedural and regulatory directives that orchestrate the financial and accounting activities of entities mandated to adhere to it. This orchestration is pursuant to statutory requirements and aligned with globally recognized financial and accounting benchmarks.

- **From an Economic Standpoint:** Financial accounting is construed as a structured mechanism for the orchestration of financial data, facilitating the aggregation, classification, evaluation, and documentation of foundational numerical data. This process culminates in the generation of

financial statements that authentically mirror the fiscal condition, asset base, operational efficacy, and liquidity status of an entity—whether individual or collective—at the fiscal year's closure (**Chouaib Chanouf, p. 26**).

1-2- The Conceptual Framework of the Financial Accounting System

The conceptual framework for financial accounting serves as a guiding compass for the development, interpretation, and selection of accounting policies in instances where transactions or events lack explicit standardization or interpretive guidance.

1-2-1- Scope of Application: The scope of application demarcates the entities legally incumbent to uphold financial accounting practices pursuant to the mandates of the Algerian financial accounting system.

Mandated Entities: Entities obligated to engage in financial accounting include (**Hammam Mousa, p. 23**):

- Entities governed under the auspices of commercial law.
- Cooperative associations.
- Natural and juridical persons involved in the production and provision of commercial and non-commercial goods and services, provided they engage in systematic economic activities.
- All natural and juridical persons under the purview of specific legal or regulatory mandates.

Exempt Entities: Exclusions from this mandate encompass:

- Individuals governed by public sector accounting norms (**Chouaib Chanouf, p. 29**).
- Small-scale entities whose operational parameters—turnover, workforce size, and activity scope—fall below designated benchmarks may opt for a streamlined financial accounting framework.

This streamlined system is predicated on a cash basis accounting methodology, colloquially termed "cash accounting," centered around the compilation of a cash ledger. This ledger delineates the net flow of monetary resources, obliging small entities to adopt a simplified record-keeping mechanism. Within this framework, entries are methodically and reliably documented, reflecting both receipts and expenditures. The integrity and veracity of these records are contingent upon (**Houam Joumaa, 2011, p. 26**):

- The systematic provision of evidential support for cash ledger entries.
- The maintenance and retention of records in the cash ledger or ledgers, corroborated by documentary evidence, whether sourced internally or externally.
- A congruence between the cash balances, encompassing both physical currency and negotiable instruments, and the accounts held at banking or analogous financial institutions.

1-2-2- Main Assumptions and Principles in Accounting Framework:

Per Article 06 of the 2007 Law No. 07-11, dated November 25th, accounting principles emerge as evolved customary norms paralleling the developmental trajectory of accounting itself. This evolution precipitates the obsolescence of certain principles and the advent of others, originally proposed by domain experts and ratified through consensus among financial statement users and representatives across diverse economic sectors. These principles are endowed with legal gravitas, rendering financial disclosures by entities (including tables and financial statements) credible only upon their adherence to these established principles.

1-2-2-1. Fundamental Assumptions:

The axiomatic foundations of accounting underpin the entire accounting edifice, serving as the theoretical framework's keystone. These assumptions pave the way to the derivation of accounting principles (**Hadi Al-Saffar, 2009, p. 16**). Integral to the International Financial Reporting Standards (IFRS) are two cornerstone assumptions:

- **Accrual Basis Accounting:** The preparation of financial statements is predicated on actualized transactions and occurrences. This denotes that accounting entries for operations and events are chronologically documented at their occurrence rather than the exchange or receipt of the corresponding financial values. These transactions are duly recorded in the accounting records on their actual dates, thus featuring in the financial statements for the relevant fiscal periods.

- **Going Concern:** This assumption is vital for the appraisal of assets and liabilities, based on the premise that the entity is presumed to continue

its operations without the intention or necessity to cease. This continuity assumption underlies the valuation of asset and liability elements in accordance with standard valuation protocols. Should the presumption of business continuity be rescinded, the valuation shifts to reflect liquidation values, a deviation from standard valuation that must be explicitly acknowledged.

It is crucial to note that the going concern assumption does not imply an indefinite operational forecast but rather a present-focused presumption. It logically infers that at any specific temporal juncture, it is expected that the entity will perpetuate its operations to satisfactorily address its current obligations and capitalize on its extant assets. Minimally, the entity's projected operational duration should exceed the lifespan of any asset it holds, ensuring adequate coverage for its obligations and the fulfillment of its extant contractual commitments (Hadi Al-Saffar, 2009, p. 32).

1-2-2-2. Accounting Principles

Accounting principles represent the bedrock norms guiding the selection process among available practical application alternatives. As such, they are the definitive reference for adjudicating disputes emanating from the accounting profession's execution. These principles, as identified by Hawas Salah (p. 16), include :

- **Principle of Double-Entry:** A cornerstone of accounting, this principle underpins the systemic and normative framework utilized by entities for chronicling their financial transactions. It stipulates that each accounting transaction must engage at least two accounts in a dual capacity—one as a debit and the other as a credit.

- **Historical Cost Principle:** This doctrine asserts that the valuation of assets is predicated on the economic sacrifices or the actual expenditures incurred by the entity for asset acquisition, as verifiably recorded in financial documents.

- **Prudence Principle:** In facing the inherent uncertainties of various events and conditions, such as the collectability of doubtful accounts, this principle mandates a conservative estimation approach. This ensures that the financial reporting neither overstates assets and income nor understates liabilities and expenses.

- **Matching Principle:** Dedicated to elucidating the financial outcome of a fiscal period, this principle aligns realized revenues with the expenses incurred therein. Accountants are tasked with ensuring that an entity's revenues, both direct and indirect, correlate with their associated costs, an application of the fiscal year's autonomy principle.

- **Periodicity Principle:** This dictates the evaluation of an entity's economic activity for a designated period without overlapping with others, achieved by juxtaposing the period's revenues against its pertinent expenses, irrespective of the actual completion of payment within or before the specified period.

- **Substance Over Form Principle:** Introduced recently in Algeria, this principle prioritizes the financial substance of economic events over their legal formality, permitting the categorization of lease loans within budgetary items. This emphasizes the financial essence over the contractual guise of transactions (**chouaib Chanouf, p. 31**).

- **Consistency Principle:** Anchored in the continuity of accounting practices, this principle advocates for the uniform application of accounting methodologies across fiscal periods (**Chouaib Chanouf, p. 30**).

- **Non-Compensation Principle:** It stipulates the prohibition of counterbalancing among the elements of assets and liabilities, or between revenues and burdens (**Chouaib Chanouf, p. 31**).

- **Materiality Principle:** This principle delineates the limit to which accounting information must be all-encompassing. The significance of information is measured by its potential impact on the economic decisions made by users of financial statements (**Houam Joumaa, 2011, p. 35**).

1-3- Attributes and Aims of the Financial Accounting System

1-3-1- Defining Characteristics of the Financial Accounting System:

Integral to the efficacy of the financial accounting framework are three principal characteristics, as identified (**Zein Abdel Malik 2014/2015, p. 8**):

- The system is designed to harmonize with international accounting standards, specifically IFRS/IAS, ensuring its adaptability to the dynamics of the modern economy. This alignment facilitates the generation of nuanced financial information, mirroring the entities' financial statuses.

- It is characterized by the inclusion of unequivocal and precise doctrinal texts delineating the principles, recording methodologies, measurement practices, and the articulation of financial statements. This precision inherently reduces the scope for misinterpretation across both managerial and non-managerial spectra.

- The system provides financial information that is not only clear and consistent but also conducive to comparative analysis, thereby enhancing the decision-making process.

1-3-2- Objectives of the Financial Accounting System:

The implementation of the financial accounting system is motivated by a spectrum of objectives, as highlighted (**Mohamed Boutin 2010, p. 11**):

- Wealth generation for profit maximization
- Endurance and competitiveness on the global stage
- Conquest of international markets
- The system is tasked with delivering information that is not only comprehensible and actionable but also hallmarked by reliability, credibility, and comparability, thereby empowering stakeholders in their decision-making processes.

- It mandates uniformity in disclosure practices by the provision of financial statements characterized by adequacy, relevance, and freedom from significant inaccuracies.

- A strategic goal is to attract and retain foreign investment by harmonizing accounting practices, thereby removing barriers presented by diverse accounting systems.

- To fortify Algeria's reputation and trustworthiness among international financial and commercial entities.

- The system aims to instill robust governance principles within organizations, enhancing accountability and ethical business practices (Corporate Governance).

- It seeks to equip enterprises with the insights necessary to leverage optimal economic and accounting strategies for sustained growth and profitability.

1-3-3- Valuation and Recording Principles within the Financial Accounting System

The financial accounting system delineates specific protocols for the valuation and documentation of items within financial statements, aiming to precisely determine their monetary value for inclusion in either the balance sheet or income statement accounts. This system is underpinned by a set of both overarching and nuanced rules governing the valuation and recording processes.

1-3-4- Criteria for Financial Statement Item Recognition

As per directives from the International Accounting Standards Board (IASB), the recognition of assets, liabilities, equity, revenues, and expenses within the financial ledgers is contingent upon fulfilling two critical prerequisites. These prerequisites, as explicated (**Mohamed Boutin 2010, p. 57**), are as follows:

- A probable inflow or outflow of future economic benefits linked to the item must be anticipated by the entity.
- The item's cost or value must be quantifiable with a high degree of reliability.

Recording methodologies are subsequently outlined, adhering to these foundational principles (**Mohamed Boutin, 2010, p. 57**):

• **Asset Recognition:** An asset is acknowledged on the balance sheet when there exists a probable expectation of future economic benefits accruing to the entity, directly attributable to the asset, and when the asset's cost or valuation can be ascertained with reliability. In instances where expenditures have been incurred without a corresponding probable future economic benefit transference to the entity, such expenditures are classified as expenses within the income statement.

• **Liability Recognition:** A liability is recognized on the balance sheet when an expected resource outflow, embodying economic benefits due to the settlement of a present obligation, is probable, and the amount of the liability can be determined with reliability.

• **Revenue Recognition:** Revenue finds recognition in the income statement upon the realization of an increase in future economic benefits, arising from either an asset enhancement or a liability reduction, which can be reliably measured.

- **Expense Recognition:** An expense is recorded in the income statement upon the occurrence of a decrease in future economic benefits, associated with either an asset reduction or a liability increase, provided this decrease can be reliably quantified.

1-3-5- General principles for valuation of financial statement items

Valuation of elements within financial statements constitutes a meticulous estimation process designed to accurately determine the financial worth of the item in question. Predominantly grounded in the historical cost principle, this valuation process occasionally necessitates the adoption of alternative methodologies for specific considerations and items. These methodologies include fair value, current cost, recoverable amount, among others. Below are the elucidated valuation methods:

1-3-6- Historical Cost Methodology (Houam Joumaa, 2011, p. 39):

- The historical cost of assets and commodities classified under balance sheet assets is initially recorded net of any refundable charges, trade discounts, concessions, and analogous deductions.

- Assets obtained through in-kind contributions are assessed at the contribution's value.

- Gratuitously acquired assets are appraised at their fair value upon acquisition.

- For asset exchanges, dissimilar assets are valued at the fair value of the acquired assets, while identical assets are recorded at the exchanged assets' carrying value.

- Assets or services produced in-house are accounted for at their production costs.

- Liabilities are documented at the value of goods received that have engendered the liabilities, essentially reflecting the cash or cash equivalents outflow necessary for liability settlement.

1-3-7- Current Cost Methodology (Mohamed Boutin, 2010, p. 59):

- Assets are appraised and documented at the cash or cash equivalents outlay required presently for acquiring an equivalent asset.

- Liabilities are assessed at the current requisite amount of cash or cash equivalents for settlement.

1-3-8- Recoverable Amount Methodology:

- Assets are evaluated and documented at the cash or cash equivalents amount receivable upon their immediate sale.
- Liabilities are recognized at the cash or cash equivalents amount anticipated for obligation discharge under ordinary circumstances.

1-3-9- Present Value Methodology:

- Assets are evaluated and documented based on the present value of the net future inflows expected to be generated through the entity's routine operations.
- Liabilities are accounted for at the present value of the net future outflows deemed necessary for the obligation's resolution within the scope of the entity's standard operational activities.

2- Accounting Disclosure

Accounting disclosure emerges as a pivotal construct within the accounting discipline, serving an indispensable function in augmenting the informational richness and utility of accounting outputs. This concept encapsulates the process whereby accountants endeavor to communicate, through a suite of generalized financial statements, the culmination of their efforts in curating essential information tailored to the diverse needs of various stakeholder groups.

2-1- Definition of Accounting Disclosure:

Accounting disclosure is conceptualized as the adherence to a paradigm of unmitigated transparency, entailing the revelation of all material financial facts upon which the stakeholder engagement with the entity is predicated (Tarek Abdel Aal Hammad, 2000, p. 530). Furthermore, it is delineated as the strategic dissemination of critical information requisite for a spectrum of stakeholders. This dissemination aims to bolster the operational efficacy of financial markets, facilitate nuanced risk assessments of entities, and aid in formulating decisions that resonate with the strategic objectives and risk appetites of these stakeholders (**Saada Ali Al-Abd Khalil, 2008, pp. 20-23**). Eldons Hendricksen posits that accounting disclosure provides the indispensable information crucial for the efficient functioning of capital markets. This paradigm mandates the provision of ample information to enable the projection of future revenue variances and distribution trends. There is a pronounced emphasis on catering to the analytical needs of sophisticated investors and financial analysts, who

leverage this information for a comprehensive evaluation of institutional risks and the formulation of diversified investment strategies. Public entities and creditors, by extension, are empowered to access additional, tailored information to satisfy their specific informational requisites (**Eldons Hendricks, 2008, p. 766**).

The synthesis of these perspectives underscores the imperative for accounting disclosure to furnish all pertinent and essential information, thereby facilitating informed decision-making processes and satisfying the variegated needs of the entity's stakeholders.

Thus, accounting disclosure is characterized as an array of data and information articulated by entities to a broad user base via financial statements, accounting reports, and bulletins, among other mediums. This necessitates a presentation format that is both intelligible and transparent, meticulously eschewing any potential for misinterpretation or obfuscation.

2-2- Significance and Taxonomy of Accounting Disclosure

2-2-1. Significance of Accounting Disclosure: The utility of financial statement disclosures to users is underscored by three principal considerations (**Mohamed El-Mabrouk Abu Zaid, 2005, p. 580**):

- The vested interest of various entities in the disclosed information.
- The primacy of financial statements as the most trusted information reservoirs.
- The relative cost-effectiveness of acquiring information through financial statements, especially when contrasted with the potentially higher expenses and diminished benefits of generating bespoke reports for different users.

2-2-2. Taxonomy of Accounting Disclosure (Kasoum Hanan, 2015/2016, p. 63):

- **Comprehensive Disclosure:** Mandates the precise articulation of economic events and ensures the visibility of all material facts that could influence stakeholder decision-making. This type of disclosure not only covers information pertinent to the financial statements' reporting period but also extends to significant events occurring post-reporting date that could materially affect stakeholder perceptions.

- **Adequate Disclosure:** Guarantees the inclusion of a fundamental level of information within financial statements to prevent misleading

interpretations. The scope and depth of information disclosed are calibrated to satisfy the heterogeneous needs and interests of the stakeholder spectrum effectively.

- **Equitable Disclosure:** Advocates for the dissemination of financial data and narratives in a manner that consciously avoids bias, ensuring no stakeholder group's interests are unduly prioritized over others. It aims for a balanced representation that addresses the informational requisites of all stakeholders equitably.

- **Differential Disclosure:** Promotes the concept of streamlined annual reporting tailored to the disparate informational demands of shareholders. While some stakeholders may require comprehensive disclosure, others may find greater value in condensed summaries enriched with analytical insights. Despite its logical underpinnings, this approach is sometimes met with skepticism due to its presupposition of a less informed investor base compared to the ideal envisioned by the accounting standards.

- **Preventative Disclosure:** Seeks to simplify financial information to make it accessible to investors with limited financial literacy. This approach emphasizes the provision of clear, objective data devoid of unnecessary complexity, aiming to protect the interests of the general investing public from potential misunderstandings or information overload.

- **Informative or Educational Disclosure:** Represents a forward-thinking approach, concentrating on the delivery of both financial and non-financial, quantitative and qualitative information essential for making informed decisions. This category encompasses forward-looking information such as financial forecasts, capital expenditure plans, and financing sources, presupposing an audience of astute investors with extensive knowledge and analytical prowess, capable of sophisticated financial analysis and forecasting.

2-3- Levels of Accounting Disclosure

Accounting disclosure manifests across two distinct levels:

2-3-1- The Paradigmatic Level of Disclosure

emerges when financial statements are rendered with an exemplary degree of granularity, precision, veracity, and timeliness, precisely catered to the multifaceted requisites and aspirations of all stakeholders. While the

theoretical framework allows for the articulation of criteria constituting this echelon, practical attainment remains elusive.

This is attributable to several pivotal challenges: a comprehensive grasp of the diverse decision-making paradigms remains out of reach, the difficulty in pinpointing the sensitivity of these decisions to alternate strands of accounting data, the pronounced variability in stakeholders' receptivity to information underpinned by disparate accounting measurement frameworks, and the potential for questioning the veracity of such information owing to the extensive array of constraints and limitations imposed by the prevailing accounting axioms, principles, and norms that dictate the aggregation and evaluation processes within these frameworks (**Kasoum Hanan, 2015/2016, p. 66**).

2-3-2-The Pragmatic Level of Disclosure

is characterized by a judicious equilibrium between the informational utility derived and the associated acquisition cost, succinctly encapsulated in the notion of "economic viability." This level is underpinned by a confluence of accounting tenets, foundational policies, managerial strategies, and directives from oversight and regulatory bodies, juxtaposed against the vested interests of the data's consumer base (**Mohamed Matar et al., 1996, p. 370**).

3- Accounting Disclosure within the Financial Accounting System

3-1-The Function of the Accounting System in Enhancing Accounting Disclosure

Accounting disclosure, as facilitated by the Financial Accounting System, occupies a pivotal position, bolstering the integrity and utility of financial reporting. The system's cornerstone is its commitment to rendering financial statements that are not only highly detailed and accurate but also credible and timely, tailored to the diverse requirements and aspirations of all interested parties. Central to the Financial Accounting System is the principle of elevating economic substance over legal form, a doctrine that profoundly influences the financial statements by ensuring a genuine depiction of the entity's financial health. This commitment to an authentic and accurate portrayal is predicated on the implementation of clear, rigorous accounting standards, principles, and policies, demanding diligent

verification by the entity's management (**Azeddine Mohamed Najib, and Yousfi Achour ,2020**).

This framework indicates that the financial statements engendered within the Financial Accounting System constitute a substantial leap forward in the domains of accounting and financial disclosure.

3-2-Classifications of Financial Statements as per the Financial Accounting System:

- **Statement of Financial Position (Balance Sheet):** commonly known as the Balance Sheet, as articulated in IAS1, is aptly named to more accurately convey its purpose. This foundational financial document is not constrained by prescribed titles or formats. However, it demands a meticulous categorization of assets and liabilities into non-current and current segments. This detailed classification is essential for affording stakeholders an in-depth analysis of the entity's fiscal health, thereby illuminating its financial stability and liquidity (**Mohamed Boutin, 2010, p. 69**).

- **Income Statement:** This summary encapsulates the expenses and revenues incurred by the entity over a fiscal year, deliberately abstracting from the exact timings of cash inflows or outflows to delineate the net financial outcome—profit or loss—for the period (**Abdel Rahman Attia, 2014, p. 85**).

- **Cash Flow Statement:** Defined as a compilation of cash flows from operational, investment, and financing activities within a designated fiscal year, this statement provides a snapshot of the entity's liquidity at a specific juncture. Its preparation on a cash basis, as opposed to the accrual foundation applied to the balance sheet and income statement, underscores its criticality.

- **Statement of Changes in Equity:** Offers an analytical breakdown of alterations impacting the entity's equity components throughout the fiscal year, bridging the income statement and balance sheet. Given the multifaceted sources influencing equity fluctuations, this distinct statement elucidates the reasons and origins of such variations. Introduced by the International Accounting Standards Board in 1997, it furnishes an analytical

perspective on capital movements within the accounting period (**Rabie Hanafia et al., 2013, p. 437**).

- **Notes to the Financial Statements:** Constituting an essential segment of the financial statements, these notes facilitate necessary clarifications for an enhanced comprehension of the balance sheet, income statement, cash flow statement, and statement of changes in equity. They address additional informational requisites as needed (**Rabie Hanafia et al., 2013, p. 445**), including:

- The adopted accounting policies and methodologies for record-keeping and financial statement formulation.
- Essential supplementary disclosures for an accurate understanding of the financial documents.
- Details concerning affiliated entities, joint ventures, subsidiaries, or parent companies, along with pertinent transactions.
- General information related to specific unique transactions vital for presenting a truthful and fair overview.

Conclusion

Accounting disclosure within financial statements stands as a critical area of focus that has captivated the interest of both academic researchers and professional bodies, notably the International Accounting Standards Board (IASB). This engagement has prompted the issuance of numerous standards specifically targeting financial statements, underscoring their profound importance, the achievable objectives, and the essence of accounting disclosure as a mechanism for elevating the quality of accounting information. This, in turn, empowers financial statement users to execute well-informed decision-making processes.

The study has yielded the following findings:

- There is congruence between the Financial Accounting System and international benchmarks in terms of presentation and disclosure practices.
- The entity's assets and liabilities are elucidated within the balance sheet, thereby clarifying the financial capital.
- Revenue and expenditure disclosures, alongside the determination of the net outcome, are systematically articulated through the income statement.

- Cash flow statements provide a transparent account of cash movements stemming from operational, investment, and financing activities.
- Variations in equity are meticulously outlined in the statement of changes in equity.
- Notes to the financial statements serve to enhance understanding, offering detailed explanations that facilitate a comprehensive grasp of the financial statements' contents.

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