

**IFRS: the way to believe in international accounting.
Case study: The integration of the new Financial
Accounting System in Algeria**

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Abstract:

In terms of economic globalization, management practices are focused on: “How to interpret the financial data language in a world that has become more and more interlinked?”

In fact, many countries are trying to harmonize their accounting standards, and even to adopt a common set of reporting standards! In this perspective, we will define, in this paper, what is accounting and what the purpose of the development of this practice was. In a way to make more sense to our reasoning, we specially focused on the application of the norm named International Financial Reporting Standards (IFRS) adopted by firms who expected to be more able to practice foreign direct investment. Noted that, using IFRS make finical information more measurable and give more clear interpretation of accounting data based on regular norms in order to limit the obstacle related to the complexity of interpretation of financial statements between enterprises looking to cooperate!

The principal question that we try to answer on in this paper is: “Why does it make more sense to firms to adapt global accounting rules? And is it necessary for international corporate to adhere to IFRS norms?”

We gave as case study the adoption of the IFRS norm in Algeria, a country who is looking to be more open to the international business in the way to integrate to the world trade organization.

Our axe research is introduced by mobilizing two courant theories: the agency theory and the asymmetry of information (Michael C. Jensen & William H. Meckling 1976), consoled by theory of transaction costs (Williamson).

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Introduction:

Accounting rules are shaped and driven by two forces: markets economics and politics (Ross .J. Watts and Zimmerman 1986)

The relative importance of market and political influences varies across countries, across times and with the accounting issues involve. (Ray Ball 1995).

Our paper will be organize in manner to guess gradually how the practice of accounting is developed and why it is becoming necessary to adhere to a new type of international standards called IFRS!

1/ what is the meaning of accounting?

“Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic

decisions, in making resolved choices among alternative courses of action.²”

Define as a process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information.³ Accounting can be used and interpreted differently, and this depends on who is dealing with the information:

- **The Manager:** who needs feedback to know which kind of decisions he will need to take;
- **The Investors or shareholders:** who are interested in reliable financial information to measure future profits and benefits ;
- **The Lenders:** who must be assured that they will reimbursed
- **The Employees:** who want to assess the ability of the enterprise to continue to provide remuneration, retirement benefits and employment opportunities;
- **Suppliers:** who want to be able to assess whether amounts owing will be paid when due;
- **Costumers:** who needs information about the continuance of an enterprise in the way to develop corporate relationship;
- **Government:** in order to regulate the activities of enterprises and to collect taxation;
- **Public environment:** may give the public information about the trends and recent developments of the enterprise and the range of its activities.

Depending on the parts who analyze the information bringing by accounting practices, financial reporting is seen by the IASC as largely designed to give what is useful for investors.

² 1 Accounting Principles Board, Statement No. 4, ‘Basic Concepts and Accounting Principles Underlying Financial Statements or Business Enterprises’ (New York: American Institute of Certified Public Accountants, 1970), paragraph 40.

³ American Accounting Association, A Statement of Basic Accounting Theory (Evanston, IL: American Accounting Association, 1966), p. 1

2/The relation between accounting and management:

Management accounting can be carried out on the basis that no information needs to be kept secret for commercial reasons and that the preparers will have no incentive to disguise the truth. This is because the management is giving information to itself! ⁴

Accounting is the base of the information system of the firm. Because it registering historically all transactions relative to the assets and liabilities, accounting allows knowing what the company owns “assets” and what it needs “liabilities” and permit to the manager to use reliable information for decision making.

➤ **Why to use IFRS?**

In the sake of globalization, and in order to cooperate with companies all over the world, understanding financial statements is the key of practicing a good international business, this is why adopting the IFRS standards make easiest the exchange of accounting information between societies who looks to cooperate with firms all across geographical borders!

➤ **To globalize let starts with language!**

The International Accounting Standards Board operates and publishes its standards in a mixture of English using UK and US terms; although there are approved translations in several languages. ⁴

Table 1.1 Some examples of UK, US and IASB terms

UK	US	IASB
Stock	Inventory	Inventory
Shares	Stock	Shares
Own shares	Treasury stock	Treasury shares
Debtors	Receivables	Receivables
Creditors	Payables	Payables
Finance lease	Capital lease	Finance lease
Turnover	Sales (or revenue)	Sales (or revenue)
Acquisition	Purchase	Acquisition
Merger	Pooling of interests	Uniting of interests
Fixed assets	Non-current assets	Non-current assets
Profit and loss account	Income statement	Income statement

3/ Relation between accounting and theory: *the theoretical foundations*

a/ Asymmetry of information: the agency theory:

Jensen and Meckling (1976)⁵ define an agency relationship as a contract made between principal and agent to execute in his name a task involving a delegation of some decision- making power to him and a better control of information.

⁴ David Alexander, ; Christopher Nobes , “Financial Accounting An International Introduction”
Second edition; p 26

Asymmetric information is created and gives rise to opportunistic behavior of the agent to his principal and which is due to the divergence of interests.

b/ Opportunistic: Williamson theory of transaction costs :

It seems to be important to share that there are two assumptions about the behavior of economic agents:

At first, Williamson assumes that they are endowed with only a bounded rationality, indicating that if agents are rational it means that they have preferences and objectives they seek to achieve, they are still cognitively limited so that they cannot calculate all possible states before acting.

Moreover, these agents are assumed to be opportunistic, that is to say, they may resort to trickery or cheating to achieve their ends.

Secondly, economic agents enter into transactions with each other. Three factors distinguish them: the specificity of the assets exchanged, uncertainty and frequency

4 David Alexander, ; Christopher Nobes , “Financial Accounting An International Introduction” Second edition; p

5 Michael C. Jensen et William H. Meckling, Theory of firm, "managerial behavior agency costs and ownership structure",1976

Uncertainty:

The uncertainty, combined with the limited rationality of agents and their opportunism, induces more or less probability of occurrence of hazards associated with the transactions. More the uncertainty is important; the institutional structure underlying the exchange must be more able to respond effectively to these hazards.⁶

Frequency:

The frequency of a transaction is an increasing function of asset specificity involved: an asset is more specific, more parties involved are likely to be required to act jointly.⁷

Williamson shows that more specificity and frequency are greater, the institutional arrangement adopted will tend toward a vertical integration and thus to an administrative coordination mode.

4/ Resort to the practice of IFRS:

Shaped ultimately with economics of markets and politics, the causes of the requiring to international accounting rules are defined by:⁸

- The progressive growth of the globalization of the markets where accounting report are using for;
- The new politics nations need to regular the business corporation relationship in order to give a same sense and interpretation to the financial statements.

a) The usefulness:

The implementation of IFRS indicated that a shared set of standards make easier to compare the financial performance of companies through different countries. This would reinforce the efficiency of competition for international funds and make international capital markets more efficient, leading to a decreasing cost of capital for businesses.

b) Objectives

The expected objectives are based on the fact that the requirement to use IFRS allows for greater transparency and improves the quality of financial information submitted by firms to the different national and international partners in order to give them a more normative reading financial statement.

Part II: the case study: adapting Financial accounting system in Algeria in a way to adhere into WTO:

In perspective to be opening up to the international business, and in order to permit foreign investors to make decision to cooperate with Algerian enterprises in the aim to exchange

management knowledge, Algeria has taken a new economic turn in manner to integrate a new kind of economical link by adapting the international accounting system.⁹

6 Herbert Simon, "Modèle d'attitude de choix rationnel", 1957

7 Simon H. A., "Rational Decision Making in Business Organizations", American Economic Review, n° 4, 1979

8 Thomas Jeanjean, Hervé Stolowy "Do accounting standards matter? An exploratory analysis of earnings management before and after IFRS adoption

9 <http://www.mincommerce.gov.dz/>

1. An overview of the Algerian Economy:

In 1994 The Algerian government started economic reforms program, focusing on macroeconomic stability and structural reform, which has met with some success in certain sectors. At the start of his third mandate, President Bouteflika announced that his 5-year plan (2009-2014) would include an increase from \$120 billion to \$150 billion in spending to improve national infrastructure, create three million jobs, and build one million new homes¹⁰.

➤ Economy based on hydrocarbons revenues:

The hydrocarbons sector is the backbone of the Algerian economy, accounting for roughly 60% of budget revenues, nearly 30% of GDP, and over 97% of export earnings. Algeria is the fourth-largest crude oil producer in Africa.

In 2009 Algeria produced 2.13 million barrels per day of oil liquids, of which 1.33 million barrels per day was crude oil. Algeria has the tenth-largest reserves of natural gas in the world and is the sixth-largest gas producer (2008). The country produced 3.05 trillion cubic feet of natural gas in 2008; 69% was exported. Its key oil and gas customers are Italy, Germany, France, the Netherlands, Spain, the United Kingdom, and the United States.

➤ Hydrocarbons what else?

Faced with declining oil revenues and high-debt interest payments at the beginning of the 1990s, Algeria implemented a stringent macroeconomic stabilization program and rescheduled its \$7.9 billion Paris Club debt in the mid-1990s.

The macroeconomic program was successful at narrowing the budget deficit and at reducing inflation from near-30% averages in the mid-1990s to almost single digits in 2000. The government reported an inflation rate of 5.7% in 2009 and an economic growth rate of 3.9%. Increases in the production and prices of oil and gas over the preceding decade led to foreign exchange reserves exceeding an estimated \$150 billion in 2010. The spike in oil prices at various times in recent years, along with the government's tight fiscal policy and positive trade surpluses based on oil exports, brought foreign exchange reserves to nearly \$180 billion as of January 2012.

The Algerian Government has had little success at reducing high unemployment--officially estimated at 10% in February 2011, though international estimates put the figure much higher--or at improving living standards. Policies needed to modernize the economy and increase growth are banking and judicial reform, improving the investment environment, partial or complete privatization of state enterprises, and reducing government bureaucracy.

The government has privatized or closed some state-owned enterprises in certain sectors of the economy and allowed joint venture investment in others.

¹⁰ <http://www.algex.dz/>

➤ **Promote the foreign investment:**

The government seeks to diversify the economy by attracting foreign and domestic investment outside the energy sector but announced several economic policies in 2008 and 2009 that would strengthen Algerian Government control over foreign investment projects. Algeria adopted a “complementary finance law” on July 22, 2009, which imposed new restrictions on foreign investment, import companies, and domestic consumer credit. The law requires a minimum of 51% Algerian partnership in new foreign investments, a 30% Algerian partnership in all foreign import companies, and payment of all imports by letters of credit opened by banks.

In 2001, Algeria concluded an Association Agreement with the European Union, which was ratified in 2005 by both Algeria and the EU and took effect in September of that same year. The Algerian government continues to express interest in working toward accession to the World Trade Organization.

2/ The adapting of the Financial accounting system: the SCF

Came into effect in January 2010, the New Financial Accounting System based on IFRS international standards, provides as explained by the Minister of Finance, Mr. Karim Djoudi a “*greater transparency*” and “*a more readable presentation of financial statements*”

Giving primacy to economic over the legal, accounting system that have to be apply to all economic sectors in order to enable enterprises to use and to measure their performance at national and international level, says Minister.

2/1.The Relevance of IFRS Adoption in Algeria

➤ **Transition from PCN to SCF**

In 2010, Algeria undertook a significant accounting reform by replacing the Plan Comptable National (PCN) with the Système Comptable Financier (SCF). This new framework draws largely from International Financial Reporting Standards (IFRS), incorporating concepts such as fair value measurement, accrual accounting, and substance over form. However, the SCF remains a national adaptation and does not reflect a full adoption of IFRS (Boulkeroua & Khemakhem, 2013).

➤ **Rationale for IFRS Convergence**

The convergence with IFRS is primarily motivated by Algeria's ambition to integrate more fully into the global economy. The adoption of international accounting standards is seen as a way to:

- Improve the transparency and comparability of financial statements, thereby attracting foreign investors (Ball, 2006)
- Facilitate participation in international financial markets and partnerships;
- Strengthen internal governance and financial risk management practices (Tarca, 2004).

Such convergence aligns with international efforts to harmonize financial reporting and improve global economic communication.

Why to change?

It should be recalled that the global accounting system is based on two schools: the Anglo- Saxon and Continental (European). Algeria applied the French system from 1957 until 1975 the date of the Publication of National Accounting PCN, and since that no changes were made while

many economic and financial operations have been developed in this country.

Today, reform has become necessary and is the modernization and adaptation to the new context of the accounting system governing entities subject to accounting and management changes in the economic sphere since 1975. The PCN of 1975 was characterized by the lack of standardization in some fields such as leasing operations, accounting for long-term contracts, the recognition of public service concessions, plan accounting and association **operations made to third parties and reprocessing of public subsidies.**

3/Algeria economy: the new way must be taken!

Today more than 120 countries have adopted international accounting standards as they have different economic systems. The objective is to develop a single set of accounting standards, to ensure a high degree of transparency and the comparability of financial information.

In 2002, during the NEPAD meeting in Durban (South Africa), all Heads of State and Government had adopted eight codes including on the application by the African International Accounting Standards and Norms on Auditing. At this meeting were approved principles of payment systems, the recommendations in the fight against money laundering and corruption, and the basic principles for the supervision of financial markets and the insurance industry.

4. Key Barriers to Full Adoption

Despite these advantages, several structural and institutional barriers hinder full IFRS implementation in Algeria:

- A lack of expertise and training among accounting professionals, particularly within small and medium-sized enterprises (Ben Abdelkader & Bchir, 2011);
- The continued dominance of fiscal logic over financial reporting, as the Algerian tax system still relies heavily on the PCN's framework;
- Institutional inertia and an absence of political urgency to enact a comprehensive transition.

These limitations underscore the complexity of aligning a national accounting system with international standards without broader economic and legal reforms.

5. Partial Adoption in Practice

Although Algeria has not officially adopted IFRS in full, certain sectors—such as banking, insurance, and foreign subsidiaries—have begun preparing IFRS-based financial statements, particularly when required by parent companies or international partners. This demonstrates a gradual and informal convergence, even in the absence of a national mandate.

Moreover, recent studies and policy discussions suggest that a progressive approach, adapted to Algeria's institutional context, may be the most realistic path forward (World Bank, 2021).

Conclusion

While Algeria's current accounting system (SCF) represents a step toward international norms, the complete adoption of IFRS remains a long-term objective.

Achieving it will require coordinated efforts in education, regulation, and fiscal policy. Nevertheless, increased alignment with IFRS is essential for improving Algeria's financial transparency, enhancing investor confidence, and facilitating international economic integration.

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