

Research on accounting quality under IFRS adoption in Algeria

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Date of receipt: 2024-03-05

Date of acceptance 2024-05-10

Abstract:

Through the analysis of Algeria's adoption of the IFRS standards, the study aims to provide empirical evidence on the question of whether the International Financial Reporting Standards IFRS can be relevant to a developing and transitional-based economy. In particular, the quality of information disclosed by Algerian production companies.

The results showed that there is a negative relationship between accounting system environment and the quality of accounting after the International the IFRS adoption in Algeria.

Keywords: Rrelevance of accounting Information; Financial accounting system; International financial reporting standards; Algerian Production Companies; Developing countries.

Jel Classification Codes : M41, M48, B41

1. INTRODUCTION

1.1. Problematic

Accounting is a system that is based on standardized principles, organization, methods and terminology (Conseil de la comptabilité, 1986, p.25). Qualitative financial accounting information contributes to investment and financial markets outcomes (Touazi et Chabi, 2018, p.129), through reducing the cost of capital (Leuz and Verrecchio, 2000, p.91-124), improving the efficiency of capital allocation and improving corporate governance (Bushman and Smith, 2001, p.237-333), etc. IAS¹ IFRS² standards are based on financial accounting of principles do not have a chart of accounts. They are very useful for equity investors, lenders and other current and potential creditors (Obert, 2017, p.66) as they can assist them in decision making through providing useful information for investment decisions and for monitoring managers. However, although prior research examined the consequence of their adoption in different contexts, results remain mixed in developed countries (Narktabtee, Patpanichchot, 2011 b, p.79-92), (Soderstrom, Naomi and Sun, 2007, 675-702) (Păuacan, 2015, p.586) (Ashbaugh,2001) (Barth et al. 2008) and in developing countries (Fuad, Juliarto, Harto, 2019) (YURT, ERGUN, 2015, p.11) (Ling et al. 2011)[56] . So, do IAS/IFRS standards improve the quality of financial accounting information? What are their determinants?

On the other hand, although Algeria has adopted the new Financial Accounting System FAS that is based on the IAS/IFRS (Touazi, Chabi, 2018, p.408) standards, the FAS system contains a detailed chart of accounts and it was published in legal texts. So, has the FAS system adoption improved the quality of financial accounting information in Algeria?

1.2. Methodology

Firstly, the theory of financial accounting systems classification is presented. Then, the impact of adopting the international accounting system on the quality of financial accounting information is presented. The objective is to interpret the quality of financial accounting information depending on the Algerian context. Finally, an empirical study is carried out on a sample of Algerian manufacturing companies. The case study adopted the questionnaire survey as the main method to collect data. So, enterprises are not selected

randomly and invited accountants to participate in the research. Then, multiples choice questions about companies' accounting information system and about the application of FAS³ rules are sent out. Then, they are asked about the problems of FAS system and on its relevance.

This research employed a positivist, interpretative and empiricist framework of analysis and used a deductive interpretative qualitative approach. The methodology is based on institutional factors impact analysis, semi-direct interview and Multiple Choice Questions conducted with a sample of ten Algerian production companies from different sectors. The reasoning is based on texts and contexts comparison, the neo-institutional theory and on contingency and related theories. The primary data collected was analysed by using texts treatment method and by using Excel as a data processing software.

1.3. Research hypothesis

According to Nobes and Parker (2010) culture, legal system, type of funders, tax system, profession and other factors influence accounting (Nobes, Parker, 2010, p.60). According to Shannon and Weaver, information reduces uncertainty and it is a source of decision making. However, according to H. Simon because of the prohibitive cost of collecting information, rationality is limited when making decision (Powell, Di Maggio, 1991). Jensen and Meckling (1976) stated that shareholders are confronted with the risk of adverse selection and the risk of moral hazard of their agents (Jensen, Micheal, 1976). Zimmerman (1986; 1990) indicates that managers can choose accounting policies in their own best interest (Watts, Zimmerman, 1986). Empirically, the implication of this principle was tested by Healy (1985), Dichev and Skinner (2002) and Jones (1991), etc. The embedding theory, states that social networks influence the behaviour of individuals in organisations (Granovetter, 2008, p.239). Finally, the behavioural finance theory raises serious questions about the extent of securities market efficiency (Simon, 1957). So, hypothesis n°1: The quality of financial accounting information depends on institutional factors.

BENSABEUR-SLIMANE (2016) indicated that financial accounting choices of companies depend on factors from the institutional environment of FAS (BENSABEUR-SLIMANE, 2016). However, the National Statistical

Office showed that the FAS system will have a positive impact on the quality of financial accounting information (Touazi, Chabi, 2018, p.408). So, hypothesis n°2: Financial accounting information quality depends on the institutional conditions of FAS system.

2. RESULTS AND DISCUSSION

2.1. Accounting determinants and quality

The study showed that the FAS is largely inspired by the Anglo-Saxon financial accounting model (Baizid, Chabi, 2021). It is characterised by its investors orientation, use of fair value concept, lack of prudence, lack of uniformity, provisions for risks and charges, lack of detail and precision, its consolidation rules, disconnection with the tax system.

But, the Algerian institutional context namely, the political system, the economic system, the legal system and the cultural system negatively affect its adoption effectiveness and the quality of financial accounting information (BENSABEUR-SLIMANE, 2016).

Table n°1: Accounting quality determinants in Algeria

Rate	Type of problem
80%	External
80%	Internal
80%	FAS

Source : Made by us

The study showed that the adoption of the market economy-based accounting standards in a developing and transitional economy did not have a positive impact on the quality of financial accounting information (Fuad, Juliarto, Harto, 2019). Specifically, the empirical study documented that the problem of expenses capitalisation of the production companies can be linked to the tax system and the regulated aspect of the Algerian system (SADI, 2012).

3.2 FAS application level

Then, the transitional and the underdevelopment aspect of the Algerian economy may be the main source of failure to improving the accounting quality (Nobes, Parker, 2010), as the accounting rules couldn’t be fully applied. So, the quality of financial information has not been improved comparatively to NCA⁴ system.

Table N°2 : FAS application level

Types of rules	NCA	FAS	FAS Specific
Rules of presentation	11%	21%	49%
Conceptual framework	25%	50%	89%
Rules of evaluation	28%	16%	34%
Total	21%	29%	62%

Source: Made by us

Specifically, the empirical study documented that the problem of expenses capitalisation of the production companies can be linked to the tax system and the regulated aspect of the Algerian system (SADI, 2012). Then, the transitional and the underdevelopment aspect of the Algerian economy may be the main source of failure to improving the accounting quality (Nobes, Parker, 2010, p.60), as the accounting rules couldn’t be fully applied. So, the quality of financial information has not been improved comparatively to NCA⁵ system.

Table N°3: comparison FAS with NCA system

	Stratégique		Tactique		Opérationnel	
Accounting system	SCF	NCA	SCF	NCA	SCF	NCA
Balance sheet	3/4	2/4	3	3/4	2/4	2/4
Income statement	3/4	2/4	3	3/4	3/4	2/4
Cash-flow statement	1/4		2		2/4	

Notes	2/4	1/4	1	2/4	1/4	3/4
Journal	2/4	2/4	1	2/4	1/4	2/4
Ledger	2/4	2/4	1	1/4	1/4	2/4

Source: Made by us

3.3. Recommendations

Specifically, through the analysis of Algeria’s adoption of the IAS/IFRS standards, the study provides evidence that the IFRS to be relevant to a regulated, bank and fiscal-based underdeveloped economic system rather than to a market economy-based system, it implementation process must be supported and completed by effective change management (Crozier, Friedberg, 1977) [4] and adaptation practices and strategies (Touazi, Chabi, 2018, p.408)[74] (SADI, 2012) [66].

Table n°4: The information systems quality of the companies

Rate	Problems
100%	Problems in governance
60%	Problems in expenses control, specification and capitalization
55%	Problems in stock management and control

Source: Made by us

Finally, through the case study of Algeria, the study recommends enhancing the control system and the information system of companies, specifically for the purpose of controlling immobilisations, stocks and provisions. Also, it recommends developing the education system, enhancing the market economy culture and logic (Touazi, Chabi, 2018, p.408), improving standards setting process and efficiency, developing the accounting profession and adapting the regulation and fiscal system⁶ (SADI, 2012).

4. CONCLUSION

Firstly, in terms of measuring the quality of financial accounting information, quantitative models were used based on accounting numbers (Jones,1991); (Healy, 1985); (Daniel, 2000); [39] or by quantifying

managers' judgments (Richard and Ruffin, 2016, p p3-4). However, our study is based on interpreting institutional conditions and based on analyzing the judgments of managers and based on the application of the FAS system. Secondly, in term of relationship between the quality of financial accounting information and its institutional determinants, previous studies were international inductive or international deductive (Zeff, 1972). Other studies focused on the basic principles of the theory of positive accounting (Healy, 1985) or focused on the internal characteristics of governance and management of companies (Healy, 1985). Usually, the determinant is culture (Gray, 1988), accounting profession (Sellami and Yosra, 2019), etc. Other studies analyzed the relationship quantitatively and internationally. The studies that tested this relationship nationally tend to use financial accounting numbers (Ling et al. 2011) to measure the accounting quality as opposed to analysis of respondents' data (Conseil de la comptabilité, 1986) or a qualitative analysis (Păușan, 2015, p.586). However, our study analyzed the relationship in a regulated based and bank-oriented system (Ling et al. 2011), namely the Algerian institutional system (Conseil de la comptabilité, 1986).

The results showed that the adoption of FAS system which is largely inspired by the Anglo-Saxon financial accounting model is negatively affected by the Algerian institutional context. These results are confirmed by the empirical study which is carried out on a sample of Algerian manufacturing companies. So, through the analysis of Algeria's adoption of the IAS/IFRS standards and through the analysis of international accounting systems, we provides evidence that the IFRS to be relevant to a regulated, bank and fiscal-based underdeveloped economic system rather than to a market economy-based system, it implementation process must be supported and completed by effective change management (Crozier, Friedberg, 1977) and adaptation practices and strategies(Touazi, Chabi, 2018, p.408) (SADI, 2012).

The study still has limitations. Firstly, future research can study financial accounting quality and economic consequences of accounting standards setting from management and communication perspectives. So, studies should focus on situations relevant to different industries and

companies of different countries. Secondly, the data in this study are collected from accountants, so further research can collect data from investors, from creditors and from a variety of sources. Moreover, quantitative analysis can be combined with qualitative analysis. Particularly, specific accruals models of costs capitalisation would be used. Then, as the failure to improving the financial accounting quality in Algeria may be linked with expenses capitalisation issue, future research should study the application of the principle of prudence in a bank-oriented accounting system and in a fiscal oriented accounting system. Finally, as some studies has documented a positive impact of IAS/IFRS adoption in a regulated market of developing countries (Ling et al. 2011). Further research should study how to improve standards setting process and efficiency, how to develop the accounting profession and how to adapt the regulation and fiscal system to improve the quality and efficiency of IAS/IFRS standards adoption.

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6. Appendices

Table n°6: Description of the survived companies

	Statute	Accounting Software	Average Income in millions of DA	Average Revenue in millions of DA	Employees
1	Private	Multi-post			>1000
2	Public	Multi-post	> -100	< 100	>500
3	Public	Mono-post			>1000
4	Public				
5	Private	Mono-post			>500
6	Public	Mono-post	>-100	< 100	>500
7	Public				<5000
8	Public	Mono-post			>500
9	Public	Mono-post	>-10	< 100	>500
10	Private	Multi-post	<1000	< 5000	<1000

Source: Made by us

¹ International Accounting Standards

² International Financial Reporting Standards

³ Financial Accounting System

⁴ National Chart of Accountants

⁵ National Chart of Accountants

⁶ Based on FAS characteristics and based on the comparison with the international accounting systems.