
The New Financial Accounting System in Algeria; The Horizons and the Challenges

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Abstract:

The purpose of this paper is to provide some insights on the Algerian Accounting System. Its particular purpose is to provide a historical background which have led to the formation of Accounting System in Algeria, taking into account the introduction of the new accounting standards and the emerging new financial accounting system. Then discusses the relevancy of the new financial accounting system to the new economic climate in Algeria. Finally, the paper concludes that since the new financial accounting system is kept uniform, the new financial and accounting system in Algeria may not be progressive towards cost and management accounting, and hence further efforts are needed to develop it.

Keywords: *Economic Reforms, Accounting Reforms, International Accounting Standards, Cost and Management Accounting.*

Introduction:

The Algerian economy has experienced several economic regimes. Under the colonial regime Algeria exhibited a capitalist style of economy based on agriculture. Soon after independence, Algeria started the dismantling of the old regime and began creating new means of production. This signalled the abolition of capitalism and the choice of socialism characterised by the nationalisation of the production means and the introduction of self-management system in agriculture and industry. In 1967 Algeria became a centrally planned economy characterized by strong government intervention and participation. Following the collapse in the economic system in 1990, Algeria began to establish deep economic reforms, the essence of which is to bring the Algerian economy towards a market economy.

It is the purpose of this paper therefore, to demonstrate how accounting systems in Algeria have evolved according to these economic changes. In particular, this paper seeks to demonstrate that the function of an accounting system is conditioned by the requirements of the society in which it is used and its development is contingent upon it. As a result of this, Algeria has known different accounting systems under different economic systems. The paper seeks finally to demonstrate that, Algeria could benefit from a study of evolution of western capitalist accounting system. to further develop its new financial accounting system.

This paper is divided into three parts. The first part. examines the Algerian accounting reforms undertook after the independence. This will serve as a methodological background to contradict some of the accounting literature which have claimed that developing countries have been unable to construct a system of accounting proper to their own environment. The second part, will discuss the current accounting reforms and the introduction of the International Accounting Standards, arguing that the gap between Algerian accounting practices and international accounting practices is diminishing. The third part highlights some of the problems challenging the development of the new financial accounting system in Algeria.

I. Accounting Systems in Developing Countries

Developing countries in general, have always been accused of being unable to construct a system of accounting suitable to their own environment. This state of knowledge was summarised by Briston (1978, p.116) and Samuels and Oliga (1982, p.72) respectively as follows. "So far, no developing country has been unable to construct a system of accounting designed primarily to meet its own information needs". "Most developing countries had little chance to evolve accounting systems which truly reflected the needs and circumstances of their own societies".

However, by taking Algeria as an example, it will be proved that such a statement is not necessarily true.

II. Emergence of the Accounting System in Algeria (Plan Comptable National)

Prior to independence the Algerian accounting system closely paralleled and followed the French Plan Comptable General (PCGF) of 1957. In April 1975, the Algerian accounting bodies substituted the French plan Comptable General with an Algerian accounting system: Plan Comptable National (PCN) which fits Algeria's economic requirements and which was modelled on socialist accounting methods such as "Le System de Comptabilite du Produit Material" [1], Since the very beginning of 1976 the plan became mandatory for public organisms of an industrial and commercial character, semi-public companies, and enterprises, which, whatever their forms, are subject to the tax regime according to their actual profit.

But despite that, Algeria found it difficult to apply a pure socialist or French accounting system. Such a situation can be explained by the differences in social characteristics and the nature of economic policies and objectives.

According to Laibidi (1982) there were two reasons why the Algerian accounting body did not abandon the P.C.G.F as soon as Algeria got its independence:

- ✓ *At that time the P.C.G.F was relatively advanced compared to the principal system recommended by the United Nations.*
- ✓ *The Algerian accountants at that time were naturally still undergoing, since no Algerians had been trained in accountancy by the colonialists*

According to the "rapport de presentation du P.C.N. (1974), the P.C.G.F was seen by the Algerian as inappropriate to the new demands of a socialist economy. It was in this context that the Algerian Conseil Supérieur de Comptabilité proceeded to a systematic revision of techniques and organisation of accounting in order to provide the country with more sophisticated and more adaptive tools for the economic and financial planning process. For example, the P.C.N took into account both the needs of banks to which a strategic role in the financing and controlling public enterprises devolved and the needs of central planning. It was also necessary for communication purposes to simplify and reduce the use of technical terms and to determine new norms for producing documents easily understood.

From a planning point of view, the P.C.G.F did not permit the annual determination of certain significant indicators such as the added value, gross formation of fixed capital, net savings and particularly productive investments which had never featured the P.C.G.F.

The new accounting plan (a uniform accounting system) was intended to be suited to the Algerian planning needs as well as to the management needs of socialist enterprise, notably, a tool facilitating forecasting and decision making, the plan should also contain statistical data and state estimated objectives

The new uniform accounting system applied in Algeria was intended to enable enterprises to master their evolution and establish a permanent contact with the socio-economic environment in which they operate. The P.C.N permits the public authorities to control the development of the national economy through the information generated from each individual enterprise's accounting, and thus to obtain a good comprehension of the economic process. The PCN constitutes a general framework which offers many possibilities of adaptation to particular cases. Using this framework every individual enterprise elaborates its internal plan compatible, taking into account the nature of its activities.

III. Ways in which the P.C.N has changed the P.C.G.F

These according to Boukhazar (1982) can be divided as follows:

1. conceptualisation of the problem
2. structuring the problem

1. Conceptualisation of the problem

- The P.C.N complements the P.C.G.F of 1957 by harmonising the content of classes, using a more appropriate and accurate terminology and particularly by allowing different accounts to function simultaneously and coherently.
- The new structure of accounts uses more homogeneous classification.
- Introduction of additional documents to complement the traditional documents.

2. Structuring the problem

- The classification of amortization and provision is given more importance
- The classification of class 4 and 5 (credits and debts) is symmetrical
- Conformity of the enterprise's accounts structure with the structure of activities and products and methodical classification of data for better use

Way has Algeria not adopted a pure socialist accounting system like that in USSR?

The soviet model, which was originally an anti-capitalist model, was regarded unsuitable for Algerian economic development. There was a need to seek for alternative ways which corresponded more closely to national realities. The soviet model of accounting is according to Laibidi (1987) blocked by false characteristics such as single-entry, state monolithic culture, planned centralism etc. A developing country like Algeria has to ask of any model of production or economic and social development whether it is suited to the country's economic objectives, if the country is to avoid socio-economic dead ends. Choi and Mueller (1979), for systems to be useful they should reflect the economic social and political conditions within which they operate. The objectives for the transfer of accounting technology should be compatible with the national economic plan and reflect the short and long-range economic goals of the country. Needles (1976) and Enthoven (1973) argues that if accounting is to play a useful and effective role in society, it must serve the objectives of its economic environment. The Algerian accounting system is derived from several international accounting systems without up lining up with any one of them Labidi (1987).

IV. Relevance of Uniform Accounting System to Algeria's Economic Development.

Arguments favouring the use of uniform accounting system in a centrally planned economy have come from a number of authors. For example, Enthoven (1937, p 239) suggests that:

“The fact that many activities are more and more centrally directed in countries necessitates greater emphasis on a comprehension and uniform system of accounting, rather than mere standardized accounting principles and rules of reporting for and disclosure, or charts of uniformity for certain industries”.

Perera (1998, p150-151) argues that the need for a uniform accounting system is especially desirable in a centralised economy:

“The more regulated or centralised the economy, the more important is the need for the information to be generated on a uniform basis among enterprises and hence the more integrated its enterprise accounting systems is with planning requirements”.

In Algeria, it was the growing number of operating units, the rising socialisation of production means and the increasing intervention of the government in the economic and social activities which prompted the need for a uniform accounting system. The elaboration of the plan comptable national started from an adequate assessment of the Algerian economy which took into consideration the objectives and the needs of national planning. Indeed as stated by Davidson (1978, p.9):

“The desirability of any accounting convention or system may be assessed only in the light of the characteristics and problems of the industry for which it is designed”

The introduction of a planning system has required a rise for financial information. An analysis of the Algerian planning experience can throw light on the advantage of adopting a uniform accounting system and the publication of information in uniform reports that helped in evaluating a measuring economic growth. For example, the volume of investment passed from 3.2 billion Algerian dinars per year during the first three-year plan to 9.2 billion during the second four year plan and 5.2 billion of dinars during 1978.

V. Emergence of the new Financial Accounting System in Algeria (the adoption of the International Accounting Standards)

As it was said at the beginning of this paper, in 1990, Algeria began to introduce deep economic reforms, The essence of which was the privatisation of public enterprises, autonomy of decision-making, the promulgation of investment law, the signature of the treaty between the European Union and Algeria, and the future adhesion of Algeria to the World Trade Organization (WTO). These economic reforms have influenced and forced Algerian government to apply new accounting standards.

However, though the government regime and economic style in Algeria are different from that of European countries, Algeria have decided to apply “International Accounting Standards” akin to those applied in Europe. The reason for such lining up with European Countries seems to be due to the fact, that European Countries as such France remains the leading supplier of Algeria. For example, France remains Algeria’s leading supplier with market share above 22. It is also Algeria’s 4th leading customer. France exports in Algeria were

up + 27 in 2005, and investments were up by +74%. Algeria is also a market that is being increasingly coveted by the whole international business community

Therefore, there is no doubt that Algeria's decision in developing accounting standards in harmony with international accounting standards, has been built upon its desire to participate in the globalization process, and its ability to gradually increase its competitiveness through the reforms of its economy and accounting system. It is believed that the transition of the economy in general to International Accounting Standards is one of the important conditions for Algerian to enter the World Trade Organization (see for example, Kachalin, 2008).

VI. Impact of International Accounting Standards on Developing Countries

Arguments advocating the adoption of International Accounting Standards on developing countries have come from many. This state of affairs was summarized by Levine (2001, p.700) and Weber (1992, p.3) respectively as follows:

"International financial integration can promote economic development by encouraging improvements in the domestic financial system, with positive ramifications for long-run productivity growth"

"Adoption of IAS by accounting bodies in developing countries would reduce the expense of creating domestic accounting standards. "

The importance of the adoption of International Accounting Standards in Algeria stems from the necessity of facilitating its international economic transactions and establishing a recognizable environment in order to attract potential investors and to ease the operation of the existing ones, and hence economic development. Indeed as argued by Belkaoui (1994), the success of economic development is in fact, tied to the way in which accounting systems, at both micro and macro levels, are developed and used.

VII. The new Algerian Financial Accounting System and Western Style of Accounting

Although the decision of the Algerian government to adopt the new accounting system has come to overcome the dysfunctioning of the old accounting system by bringing the accounting practice in Algeria closer to the international accounting practice, and hence brings transparency of the financial situation of business enterprises, it has kept a uniform (i.e. standardized) accounting system as was the case with the old accounting system issued in 1975.

Accounting systems in market economies appear to show more flexibility and freedom than the new Algerian financial and accounting system. Different types of information systems with different types of information systems with different methods can be found in different firms. Each firm obtains its information needs individually. Thus, there has been a move away from a uniform accounting system in both the UK and US (see for example, Enthoven, 19973). In the UK accounting information are used to protect private shareholders and investors and assists in the maintenance of a competitive market (see for example, Briston, 1978) so, while a national accounting system seeks information about the economic activities of enterprises and other economic agencies, the accounting systems of market economies are less ambitious. The market economies accounting systems allow enterprises the flexibility to present their accounting information in the way they like but this results in a lack of homogeneity. If each business enterprise in Algeria is left to represent its accounting information in the way it likes, it would seek to further its own interests, and the information communicated by business

enterprises to their partners would lack reliability. Moreover, in the absence of uniform accounting standards, it would not be possible to carry accurate comparisons between enterprises and the way the information is compiled and presented would be at the mercy of the management of each business enterprise (see for example, Henley, et al., 1989).

Furthermore, the decision of the Algerian government to keep a uniform accounting system can perhaps be explained in the context of variables and hostile economic environment in which enterprises in Algeria are operating. For example, in their study to the construction industry in Algeria, Oubrahim and Scapens, (1989) found that the construction industry was facing resource uncertainty and that managers found difficulty in applying responsibility accounting. This finding was also confirmed by Jones and Sefiane (1992) in their study to (04) manufacturing public enterprises. Jones and Sefiane found that the 04 studied enterprises were characterised by shortages and disruption in supplies, and this reduced or inhibited any perceived need to develop accounting systems beyond the rudimentary costing systems needed to comply with price control regulations. Indeed as stated by Gray (1988, p.12):

“Uniformity can perhaps be linked most closely with the uncertainty-avoidance and individualism dimensions. A preference for uniformity is consistent with preference for strong uncertainty avoidance, which leads in turn to concern for law and order and rigid codes of behavior, need for written rules and regulations, respect for conformity, and search for ultimate, absolute truths and values »

Therefore, and in view of such a turbulent economic environment, the Algerian government seems to be self-convinced when it decided to keep a uniform accounting system.

However, because of this requirement for standard information the new financial accounting system is likely to be oriented more strongly towards external reporting than to cost and managerial accounting.

VIII. The New Algerian Financial Accounting System: Some Challenges

Being principally a uniform accounting system, the new financial and accounting system in Algeria may have an unfortunate affect on cost and management accounting. For example, the new accounting system adopts the principle of historical cost, and hence it does not favour standard costs, and since standard costing has been found to be very useful in other nations, the system dose not appear to be progressive in the area of management accounting. Moreover, because the new financial and accounting system is uniform, accountants working under it are unlikely to have received sufficient amount of training to be innovative, which is essential in management accounting. In addition, it seems unlikely that under the financial and accounting system accountancy students will be interested in learning managerial concepts (such as managerial and breakeven analysis), nor will they have the requisite imagination and analytical ability to apply such concepts Scott (1970). Furthermore, uniform accounting system tend to inhibit experimentation with data collection and classification techniques and with the value of different kinds of accounting information in decision-making Scott (1968), and that uniform accounting system often has the adverse affect on the quality of decision making, by making it principally an instrument for external reporting requirement, its not suitable for decision-making purposes. It reports distorted product costs whenever an organization produces a diverse range of low-volume and high-volume products MacGee (2008). Bailey (1988) argues

that custodianship and stewardship are the main accounting functions of a uniform accounting system.. Valuation standards are based generally on full (absorption). Financial accounting and cost management accounting are also kept integrated and interdependent under the new accounting system. Experience with uniform accounting has also show that it is difficult to obtain reliable statistics relating to operating costs, Scott (1948).

Therefore, there appear to be a lot of room for the improvement of cost accounting system in Algeria. The need for the improvement of cost accounting system in the Algerian business enterprises is especially important under the new emerging situation for two main reasons:

- 1. The business enterprises in Algeria are expected to increase qualitatively and quantitatively production and to control costs of their products. In the absence of a sophisticated cost accounting system such objectives will be very difficult, if not impossible, to meet*
- 2. Under the new financial accounting system, priority is given to financial accounting. Under the new economic climate, however this priority needs ialso to be given to cost and management accounting. In particular, under the new economic climate, business enterprises are required to increase their competitiveness, and hence more resort to cost information as a guide for internal decision-making, and this would necessitate a sophisticated cost accounting system. This is so because, when inadequate and accurate information is generated this may result in incorrect decisions, and this will turn has its effects not only on the individual enterprise but on the national economy as a whole.*

Accounting as a management tool does not limit itself to the provision of data at micro-level, but also at macro-level this state of knowledge seems to be very important because in the majority of developing countries, there is a lack of awareness of the potential contribution that accounting could make in the economic development efforts (see for example, Needles, 1976 and Mirghani, 1982).

IX. The new Financial Accounting System in Algeria: Further Accounting Development

The important question that needs to be answered is what type of effort is needed to develop accounting system in Algeria and to make it commensurate with this change of socioeconomic order. Algeria while moving towards a market economy system can perhaps receive encouragement from observation of market economies accounting system by noting how their accounting systems have been developed. For example, Scott (1970 p.108) argues that a study of British accounting can throw light on the cost accounting needs of developing nations:

“A perspective on the cost accounting needs of developing nations is one of the insights to be gained by a study British accounting The fact that emphasis during Britain’s industrial revolution was on cost accounting suggests that cost accounting is very important to the industrial revolution now occurring in developing nations”.

Experience from market economies such as Britain and America indicates that accounting system has been influenced by the practices of businessmen. There is a little to be suggested that economic thought has influenced accounting development but rather the changing of business activities from one level to anther has prompted such development. Pollard (1965) an Littleton (1958) for example, argued that it was only at the point at which serous competition set in or at which profit margin were depressed for other reasons, as for example in general industrial crisis that firms began to calculate their costs more seriously and more rigorously During the

industrial revolution entrepreneurs did not develop the use of accounting in guiding management decisions to any significant extent. At the end of period various methods were tried out, but no acceptable improved system emerged. This was apart from the technical difficulties and the absence of a tradition, the problem was not widespread, and so there was no perceived need for a solution. Management and cost accounting in the US, have been influenced by the vast need for sound accounting information for industrialisation and mass production (see for example, Enthoven, 1973 and Scott, 1970) management accounting in America began to emerge as the rationalisation of business activity proceeded for example, Littleton (1958, p 247) states that:

“When the American economy had developed in the directions of mass production and mass markets men found ways of expanding the managerial device of accounting ... As a result, accounting evolution took another step, presently we see the outcome taking from, and standard cost accounting, Industrial budgeting and operating planning, controllerships. Research in analysis techniques and in methods for use in shop and office”.

Hence, it may be concluded that accounting in Britain and America was responsive to the needs of its users.

In their study, Jones and Sefiane (1992), found that accounting was maintained simply to fulfil the requirements of the government or other external agencies. As a matter of fact, accountants' role in the manufacturing public enterprises was subordinate compared to that of engineers and production managers, and not surprising that accounting had a passive role. In the absence of a tradition, this situation may continue to exist even under the new economic climate and even with the coming of the new financial accounting system for some time in the future.

Evidence from market economies such as Britain and America also suggests the engineers at sometimes was dominating industrial management. Engineers began to loss their positions as result of the involvement of accounting in key decision-making (see for example, Rott, 1970)

It is clear, therefore, to argue that the development of accounting system in market economies was the product of the business activities from one level to another. Although at this stage it is difficult to assess the actual changes clearly enough to permit more than a tentative evaluation such experience, would suggest that with the current economic climate and the introduction of International Accounting Standards, the status of accounting in Algeria is likely to be affected and may be used as a tool to evaluate a business enterprise's performance and its contribution to the economic development.

Finally what is perhaps more needed at this stage in Algeria, is that accounting should be adapted to the new emerging situation. In particular; there is a need for an education system which makes accounting amenable to changing with changing circumstances. Accountants in Algeria should be trained in the collection and the use of accounting information from the use of the new financial accounting system. Accounting bodies in Algeria should take strong initiatives to improve accounting education and responded to changing economic needs.

Summary and conclusion

This paper has shown that under different economic system Algeria has experienced different accounting systems. As explained earlier in this paper, the French accounting system dominated accounting development till late 1975. In 1975 Algeria began to move in the direction of being centrally planned economy. Central planning has need for standardised data, and so a uniform accounting system was introduced affecting both public and semi public enterprise. In 1990s the Algerian government decided to move away from a centrally economy towards a market economy in response to this change of socio-economic order, the Algerian government decided to introduce new accounting standards (International Accounting Standards). it has been argued that a perspective on the cost accounting needs of Algerian business enterprises is one the insights to be gained by a study of western accounting style.

Footnotes

[1] According to labidi (1982) the principal national accounting systems recommended by the United Nations are the “system de Comptabilite national” (SNC) 1970; and the “system de Comptabilite du produit Material” (SCPM) 1971. the SNC is usage in Western countries and in number of less developed countries. The SCPM is in usage in Socialist countries. The SCPM is based on the Marxist political economy. It has four principal balance and a number of attached balance of material, balance of labour, balance of fixed found.

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