

Accounting information quality based on its determinants: the economic levers of companies from the case study of IFRS adoption in Algeria

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Abstract—This research examines the relationship between financial accounting environment and the quality of accounting information after the International Financial Reporting Standards IFRS adoption in developing countries. More specifically, through the analysis of Algeria's adoption of the IFRS standards, the study aims to provide empirical evidence on the question of whether IFRS can be relevant to a developing and transitional-based economy. So, the international accounting systems are presented. Then, the impact of applying the Algerian Financial Accounting System FAS on the quality of accounting information is presented. In particular, the quality of accounting information produced by a sample of Algerian production companies.

Key words—Quality of Accounting Information; Financial Accounting System FAS of Algeria, International Accounting Systems, International Financial Reporting Standards IFRS, Sample of Algerian Production Companies.

I. INTRODUCTION

Accounting is a system that is based on standardized principles, organization, methods and terminology[36]. Qualitative financial accounting information contributes to investment and financial markets outcomes[74]through reducing the cost of capital[54], improving the efficiency of capital allocation [70]and improving corporate governance[34], etc. IAS¹IFRS²standards 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[9] 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[57][68][62][25][27]and in developing countries[44][75][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[74][74]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?

II. METHODOLOGY

A. 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

¹ International Accounting Standards

² International Financial Reporting Standards



information system and about the application of FAS 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 a 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 data processing software.

B. Research Hypotheses

According to Nobes and Parker (2010) [8] culture, legal system, type of funders, tax system, profession and other factors influence accounting. According to Shannon and Weaver, information reduces uncertainty and it is a source of decision making. However, according to H. Simon [17] because of the prohibitive cost of collecting information, rationality is limited when making decision. Jensen and Meckling (1976) [48] stated that shareholders are confronted with the risk of adverse selection and the risk of moral hazard of their agents. Zimmerman (1986; 1990) [19] indicates that managers can choose accounting policies in their own best interest. Empirically, the implication of this principle was tested by Healy (1985) [45], Dichev and Skinner (2002) [40] and Jones (1991) [49], etc. The embedding theory [6], states that social networks influence the behaviour of individuals in organisations. Finally, the behavioural finance theory raises serious questions about the extent of securities market efficiency [16]. So, hypothesis n°1: The quality of financial accounting information depends on institutional factors.

BENSABEUR-SLIMANE (2016) [30] indicated that financial accounting choices of companies depend on factors from the institutional environment of FAS. However, the National Statistical Office showed that the FAS system will have a positive impact on the quality of financial accounting information [74][74]. So, hypothesis n°2: Financial accounting information quality depends on the institutional conditions of FAS system.

III. RESULTS AND DISCUSSION

The study showed that the FAS is largely inspired by the Anglo-Saxon financial accounting model[18]. 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[30] [18].

TABLE I: ACCOUNTING QUALITY DETERMINANTS

<i>Taux</i>	<i>Type of problem</i>
80%	<i>External</i>
80%	<i>Internal</i>
80%	<i>FAS</i>

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[44].

TABLE II: FAS APPLICATION DEGREE

<i>Types of rules</i>	<i>NCA</i>	<i>FAS</i>	<i>FAS Specific</i>
<i>Rules of presentation</i>	11%	21%	49%

<i>Conceptual framework</i>	25%	50%	89%
<i>Rules of evaluation</i>	28%	16%	34%
<i>Total</i>	21%	29%	62%

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 [66]. Then, the transitional and the under development aspect of the Algerian economy may be the main source of failure to improving the accounting quality [8], as the accounting rules couldn't be fully applied. So, the quality of financial information has not been improved comparatively to NCA³ system.

TABLE III: FAS and NCA SYSTEM RELEVANCE COMPARISON

<i>Accounting system</i>	<i>Stratégique</i>		<i>Tactique</i>		<i>Opérationnel</i>	
	<i>SCF</i>	<i>NCA</i>	<i>SCF</i>	<i>NCA</i>	<i>SCF</i>	<i>NCA</i>
<i>Balance sheet</i>	3/4	2/4	3	3/4	2/4	2/4
<i>Income statement</i>	3/4	2/4	3	3/4	3/4	2/4
<i>Cash-flow statement</i>	1/4		2		2/4	
<i>Notes</i>	2/4	1/4	1	2/4	1/4	3/4
<i>Journal</i>	2/4	2/4	1	2/4	1/4	2/4
<i>Ledger</i>	2/4	2/4	1	1/4	1/4	2/4

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 under developed economic system rather than to a market economy-based system, its implementation process must be supported and completed by effective change management [4] and adaptation practices and strategies [74][66].

TABLE IV: COMPANIES INFORMATION SYSTEM QUALITY

<i>Taux</i>	<i>Problème</i>
100%	<i>Problems in governance</i>
60%	<i>Problems in expenses control, specification and capitalization</i>
55%	<i>Problems in stock management and control</i>

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 [74], improving standards setting process and efficiency, developing the accounting profession and adapting the regulation and fiscal system⁴ [66].

³National Chart of Accountants

⁴ Based on FAS characteristics and based on the comparison with the international accounting systems.

IV. CONCLUSION

A. Conclusion

Firstly, in terms of measuring the quality of financial accounting information, quantitative models were used based on accounting numbers [49][45][39][65] or by quantifying managers' judgments [64]. 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 [59] or international deductive [20]. Other studies focused on the basic principles of the theory of positive accounting [45] or focused on the internal characteristics of governance and management of companies [45]. Usually, the determinant is culture [47], accounting profession [67], etc. Other studies analyzed the relationship quantitatively and internationally. The studies that tested this relationship nationally tend to use financial accounting numbers [56] to measure the accounting quality as opposed to analysis of respondents' data [36] or a qualitative analysis [62]. However, our study analyzed the relationship in a regulated based and bank oriented system [56], namely the Algerian institutional system [36].

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, its implementation process must be supported and completed by effective change management [4] and adaptation practices and strategies [74][66].

B. Limitations and future perspectives

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 [56]. 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.

V. REFERENCES

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VI. APPENDIX

TABLE VI: SURVIVED COMPANIES DESCRIPTION

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