



**Does modern accounting use legal commitments or economic reality ?**

There might be, at first sight, a direct encounter between the two standards.

The accounting is a scientific discipline (until a certain measure) that strives to get the most accurate picture of the patrimony of a business at a T instant, using some rules and guidelines.

In the one hand, the Algerian Executive Decree n°08-156 dated 26/05/2008 applying the provisions of the Act n°07-11 dated 25/11/2007 laying down the Financial Accounting System gives effect to the « accruals accounting system » in its Article 6, saying that *the effects of any transaction or other event is booked according to an accrual accounting, at the date of « occurrence » of such transactions or events.*

The Regulation refers to the « occurrence ». « Occur » means « happen », which implies that we need to use legal concepts and interpretations in order to state what - in fact - « occurred » and what did not yet do.

Consequently, we are safe to say that the qualification of the « occurrence » used by the Algerian regulation goes clearly beyond the accountancy matter.

For example : when could we say that a sale of goods occurred ? Is it at the time the contract has been concluded ? or at the time of the delivery of those goods ? and what kind of delivery are we talking about : legal delivery, effective or material delivery, etc ?

Article 367 of the Algerian civil code considers that *the delivery of a sold thing is putting it at the disposal of the buyer in a way [he] could take possession of and enjoy it without any obstacle.*

The code is stating the criterion of an effective delivery, and not a legal one, which renders things a bit more delicate. If we sell a TV and release it to the buyer, the delivery is supposed to be satisfied. The criterion is economic and commercial in reality more than legal.

In order to summarize on the first part of the dissertation, the accruals system, deems a debt (positive) from the date of its acquisition and a debt (negative) from the date of its birth, i.e : for dealing with an inflow or an outflow according to that method, we need to use legal reflexes as the illustration we gave for the sale, and not record the flows mathematically.

In the other hand, the overmentioned Regulation encourages and indicates to perceive those events in their « *financial and economic reality* » rather than their legal covering (article 18). That is the famous IFRS principle of « substance over form », very well established in the US accounting practice.

For example when a company acquires a new machine through a lease-purchase convention, the overmentioned criterion requires the company to book the machine as an

asset in its financial statements, even if it does not still own it, from the legal point of view.

So, here's the point : how to conciliate and put together an accounting system based, at the same time (apparently), on the (legal) commitments and engagements (accruals), and, ironically, on the economic perception of a transaction ?

Indeed, the current tendency is to skip and put aside the « cash accounting » method, the classical and the simplest way, that computes the revenue by booking the inflows and outflows mathematically, at their date, without any big deal, but rather to go more in depth and think of the implementation of the commercial operation or the event.

The accrual system has, notably, the advantages of giving more accuracy and of harmonizing the accounting of public and private institutions and businesses.

We might observe that the legal and the economic criteria of a transaction occur simultaneously, most of the time or at least sometimes. For instance in the case of a sale, it is the delivery of the product, as seen above.

That being said, it is certain that the more the event is sophisticated, the more the difference is obvious between the two factors, legal and economic. A good example may be the dismemberment of the right of ownership (of a real estate, of shares, etc) : who is the real owner : the bare-owner or the beneficial owner ?

Anyway, the spirit of the modern accounting is to take into account the reality of an operation and takes it apart from the legal presentation if the need be, because, in our opinion :

1 – The entrepreneur may play on the legal coverings in order to harm the rights of the tax administration and cheat ;

2 – The legal presentation may not give the right value of the operation for the stakeholders and any interested person (potential buyers, banks, investment funds, etc).

In conclusion, the accounting standards are becoming more and more practical and results-oriented, giving effect to efficiency and reality rather than formalism and appearance, but the impregnation of the systems over the world is more or less limited, as people still tend to « think legal ».

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