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Evolution of assets valuation methods and convergence to IFRS: case of Algeria.

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***Abstract*— The Algerian accounting practices have evolved through time to much and suit the economic transformations and the globalised environment. The assets valuation methods is one aspect of the convergence of the Algerian accounting model to the IFRS. This article aims to explain the smooth harmonization of accounting valuation methods that the Algerian accounting model has witnessed.**

***Keywords*—** assets valuation, historical cost, inflation, assets revaluation, fair value, convergence to IFRS.

I. Introduction

Accounting information is a resource on which the entire economic environment is dependent. The accounting system is the basis for any production of economic information. It provides a form of representation of companies' transactions and all those who have contractual relations with them.

The presentation and representation of the economic events brought about by an accounting system depend on the standards and conventions that build it. However, the latter are not immutable and can be modulated according to the requirements of the actors and the political will.

The methods used to evaluate the items recorded in companies' balance sheets are at the origin of the existence of several accounting models. Positions remain shared between models built on a historical cost valuation, reflecting the concern for prudence and therefore, a nominalist logic. While the models built on a valuation at fair value aim at adjusting the patrimonial values to the rate of inflation and favour information oriented towards the needs of the investors.

This article aims to describe the evolution of assets valuation methods in Algeria. The work we present is a content analysis. The clarifications and explanations that we formulate are based on an institutional approach based on regulatory texts.

II. Presentation of the historical evolution of the Algerian accounting model

Algeria is a developing country and part of the MENA region. It was a French colony from 1830 to 1962. It had inherited its economic system, its written law (positive law) and its general accounting plan of 1957.

In 1970 Algeria sets up a process to change to a planned economy. By changing the economic path, it was necessary to promulgate a new accounting model. "Economic changes have led to accounting institutional changes and accounting systems changes" Baker and al (2015). This is how in 1975, the Algerian regulation applied the National Accounting Plan (NAP). As reported by the presentation report of the NAP, (1974,p 9) "The emergence of the national accounting plan is part of a renewal of the instruments of economic and financial policy and which involves the systematic revision of techniques and accounting organization".

In a context of planned economy " the prices are controlled, but also artificially crafted " (Jaruga, 1991) company's accounting is held in an aim to control the realization of the plan, supply the databases statistics and has as sole addressee the central administration.

In 1986, Algeria suffered a severe economic crisis due to the fall in oil prices. As it sought loans from the international monetary fund (IMF), it

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imposes a number of constraints, including a stabilization plan and a structural adjustment program. This set of measures aims at openness; the restructuring of the economy and the reorganization of enterprises whose goal is to allow Algeria a transition to the market economy. The national accounting plan (NAP 1975) gradually adjusted to the new economic logic.

As explained by Baker and al (2015), the post-centrally planned economies have witnessed two general types of accounting changes : The first type of accounting changes includes accounting institutional changes, the second one, concerns changes in accounting systems (i.e. principles and standards, legislation). The Algerian case has followed the same path.

We can distinguish two main sources that modify and supplement the national accounting plan (changes in accounting systems). On the one hand, during the thirty years of the application of the NAP, five asset revaluations were carried out; on the other hand, there have been multiple regulatory sources that have complemented the national accounting plan on points that the 1975 ordinance does not address [1], so that it can be articulated with the new economic logic. (i.e. legislation for private companies; the adaptation of accounting definitions and nomenclature to the market economy; the implementation of capitalist accounting principles; transformation of accounting concepts such as capital, assets, profit, intangibles assets) Baker and al (2015).

The national accounting plan is conceived and built on a logic of planned economy. Unprecedented situations have emerged with economic reforms, restructuring and reorganization of companies. Restructuring and reorganization have brought out constraints in the processing of information and their accounting translations. The treatment of these new situations derives from an inductive approach and is carried out by regulation (the concern for formalism resulting from the tradition of written law). The advent of the sector accounting plans, the accounting of securities transactions, and the adaptation of the NCP to holding activities and the consolidation of accounts form the backbone of the adjustment of the accounting model. However, these changes were deemed insufficient by the public institution.

The NAP has been reformed and replaced by the financial accounting system (accounting institutional changes). This institutional choice was motivated by the desire to produce better, more reliable and more relevant accounting information, thereby ensuring financial transparency and improving corporate governance. The FAS is the normative reference and the instrument by which the quality of the accounting information is assessed. It clearly defines the conceptual framework and the rules to which the preparation of the financial statements must be submitted. The adoption in 2007 of the FAS is the result of the structural adjustment process contained in IMF conditionality's and is part of the international accounting harmonization movement. Moreover, in the publications of the Algerian Ministry of Finance, under the heading of major issues, it is stipulated that: "the FAS is part of the updating of instruments to accompany economic and financial reforms [...] it consists of converging the accounting rules applied by Algerian companies to IFRS standards [...] this new accounting framework takes into account most of the existing IFRS standards".

III. Accounting models and valuation methods :

In Algeria, methods of valuing corporate assets have evolved in tandem with the constraint of economic reforms and changes in accounting standards. This change in models and valuation methods responds to the need for coherence between the economic situation and its information system.

A. *The assets concept and valuation methods in the national accounting plan (NAP) of 1975*

The national accounting plan as an accounting information system in its component, object and methodology reflects the logical and coherent link that could exist between a planned economy and an information system. It covers both the microeconomic and macroeconomic fields. It allows to produce information to make systematic decisions in order to control the execution of plan decisions. Accounting is held as an instrument used by the central authorities

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for controlling budgets and consumption of state resources. It adhered perfectly to the underlying economic model (the planned model of De Bernis industrialising industry).

B. *Notion of fixed asset under (NAP) 1975*

Under the 1975 NAP, fixed assets are designated by the notion of investment. Only the assets which are the legal property of the company, and which are held and used for more than a year are eligible to be qualified as investment.

In a planned economy, prices are essentially administered, and as Bailey (1995) suggests there is an “absence of an effective price mechanism" which lead to no changing prices. As a result inflation is contained. In this context of inflation-free economy, the accounting model is built on the principle of historical cost.

C. *The historical cost*

The historical cost value is specified by various articles in the national accounting plan, which refers to the concept of acquisition cost. (Articles 18, 21, 23 of the Decree of 23 June 1975 on the implementation of the NAP).

For authors like Hendriksen (1982), Bignon and al, (2009), Miller and Bahnson(2010); the use of historical cost is justified by its objectivity, reliability, comparability, simplicity and lack of bias as a method of determining value, unlike valuation based on the market price.

D. *Historical cost limits*

In an economic environment where inflation is repressed, valuation at historical cost is relevant and is the rule because the currency is considered a unit that does not change and retains its purchasing power. On the other hand, in contexts of high inflation, the historical cost loses its relevance. It can become highly misleading (Blake and al, 1998).

The inflation is an economic motives of fixed asset revaluations. The high inflation led to large gap between asset’s book value and there fair value. Which can mislead the judgement about the faithful representation of the underlying economics of the firm.

E. Revaluation of assets

Williams (1977), Barry (1980), Gensse (1985), Doupnique et Salter (1995), Sulucay (1992), Brown et al (1992), Raffournier (2000), Missonier-Piera (2007). Argue that inflation is a factor likely to influence valuation methods and accounting practices. It is an explanatory Factor for fixed assets revaluation.

Che and li (2011) explain that Inflation accounting is a kind of accounting procedure. Under inflation condition and according to the general price index it aims to adjusts traditional historical cost accounting in order to reflect and offset the influence of price rise on traditional accounting statement. In this scope, the revaluation of assets is used to countermeasure inflation

The high inflation experienced from 1988 to 1996, led the Algerian government to conduct four upward revaluation. Due to the legislative origin of accounting regulation, the four revaluations were initiated by decrees [2]. To avoid the direct costs of upward fixed asset revaluation. The Algerian public authorities have previously established revaluation rate for each year. The revaluation coefficient used is indexed to the inflation rate of the period. But it’s also allowed that firm revaluate assets by using a professionally qualified valuers.

The assets revaluation laws, use the concept of assets, which at that time did not correspond to the jargon used in the 1975 NAP. It also insist on the fact that the revaluation of assets can’t only relate to one element, but should concern the entire class of property, plant and equipment to which the asset belong. Which is in compliance with (IAS 16, §37).

The purpose of asset revaluations is at two levels:

- Informationally:

It allow accounting information to produce a faithful image that reflects the physical and economic reality of the business. The revaluation makes the balance sheet more realistic by avoiding the historical cost constraint on the dissemination of relevant information.

- Economically and financially:

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The revaluation offsets the effects of devaluation, currency erosion and inflation. The revaluation rates being indexed to the inflation rate, allows the constitution of working capital. When financial statements are restated according to current purchasing power, this eliminate the impact of inflation. Upward revaluation has a considerable effect on the financial statements' aggregates. Which as explained by Missonier-Piera(2007), Jaggi and Tsui, (2001), Lin and Peasnell (2000) , improves creditors' and foreign stakeholders' opinions about the financial health of the firm and thereby improve the firm's borrowing capacity.

Revaluations of assets therefore become legal practice and refer to an adjustment in the prices of the assets. These revaluations are standard practices and are recommended by international accounting standards. According to Raffournier et al (1998), Aboody et al (1999), Missonier-Piera (2007), Che and Li (2011), Dos Santos and Lopes Salgado Ribeiro (2014). A wide range of countries allowed this practice: Italy, Spain, Australia, Belgium, France, the Netherlands, Switzerland, the United Kingdom, Hong KongJapan, New Zealand, Brazil, and China. The revaluation is a discounting of value that allows fair value accounting.

Revaluation of assets is a method of determining fair value that responds to a replacement value logic based on the present value. Initially in Algeria, revaluation was made only on depreciable property, plant and equipment.

In 1988, Algeria carried out the first revaluation of assets including the laws of economic reforms and imposed the revaluation of corporate assets.

F. Revaluation of assets using rates

The revaluation of 1990 made no distinction between the different depreciable fixed assets. They were all reassessed at the same coefficient. Single indexing can create new distortions. However, the 1993 and 1996 reassessments take into account that fixed assets are not of the same nature and that they may suffer the effects of inflation and devaluation differently. Thus a distinction is made between equipment and plants and proprieties.

If the revaluation was only limited to depreciable fixed assets. Because it is considered at this initial stage more economically attractive. Due to its impact on cash flow. Upward revaluation was recorded as a revaluation surplus- which was untaxable- in the firm's equity capital and in addition to the net book value of its assets. . After being revaluated, assets were depreciated at their new value.

The balance sheets of the company's before revaluations showed:

-investments with a net book value of nil as they continue and will continue to be used,

- depreciated investments that have not yet been put into operation.

The discrepancy between physical reality and economic reality altered the image (information) conveyed by accounting. Monetary erosion and inflation require a correction of the value of the investments recorded on the balance sheets at their historical cost. (Investments / fixed assets) are undervalued. This undervaluation of the assets lead to calculate insufficient amortization, which did not allow for their replacement and renewal. The reason is: the accounting result calculated on this basis is incorrect and the taxable result is overvalued (Simon (1987)). The depreciation method used is exclusively linear (Consistency Theory). These elements penalize the company and did not allow it to constitute a sufficient cash flow and working capital.

G. Revaluation of assets using the replacement value or recognition at current price

Blake and al (1998), explained that the problem of inflation is circumvented by accounting research community with two alternative approaches:

a) A change to a current purchasing power by recording book value at current price.

b) A change to replacement value.

The Algerian approach to over-elaborate the effect of inflation integrated the two approaches.

To understand the notion of replacement value, it is first of all essential and useful to specify the

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content of the concept of depreciation according to the national accounting plan (NAP of 1975).

"Amortization represents the recognition of the depreciation of investments making it possible to reconstitute the invested funds".

- They are calculated so as to reconstitute, after a fixed period of time, the funds allocated to each category of investments,

- Amortization calculated from the moment an investment is acquired or completed, must be made every year, even in the absence of profit.

From this definition we understand that the depreciation is practiced to allow a maintenance of invested capital and an identical replacement of the assets (depreciable fixed assets). This logic converges with the definition provided by Friedman (1981) of the cost of replacement "replacement cost is the current cost to acquire the productive capacity which would provide the current level of economic services"

For Sulucay (1992), the replacement cost is based on the current buying prices of the assets which were acquired in the past. It is the basis for current cost accounting.

The financial nature of depreciation tends to ensure the replacement value of the asset based on its original value. The different revaluations of assets were calculated on their acquisition cost (the historical cost). By correcting the original value of the depreciable asset the future amortization will be correct and sufficient [3] (depreciation theory, Teemu (1991)). This allow at the end of the useful life of the fixed asset it replacement by a new fixed asset (by the amount of the accumulated amortization). The principle of revaluation is the recognition of a corrected value, which will subsequently allow the replacement of fully amortized depreciable property, plant and equipment.

The replacement value of the depreciable asset is determined on the basis of the current price of a similar new asset, with the same economic characteristics. This means that the new recorded value of the asset is a discounted one.

The discounted value is part of the revaluation, it is obtained on the basis of coefficients. It consists of a monetary adjustment tending towards a fair value. Article 11 of Decree 90-03 of 04/04/1990 qualifies revaluation rates as discounting factors.

H. Other ways of evaluating in the national accounting plan

- Exit value or liquidation value

This valuation relates to the balance sheets established in the context of companies in liquidation, bankruptcy. When the going concern principle is clearly in question. The balance sheets are carried out in this case on the basis of liquidation price and exit value. This exit value is estimated by the liquidator [4] with reference to market prices.

-Market price

The notion of the market price implicitly existed in Article 5 of Decree 90-103 of 04/04/1990 and Article 4 of Decree 93-250. It is established on the basis of the opinion of an expert. (This is a compliance to the professionally qualified valuers (IAS 16, §32)); or with reference to a comparable good. The value attributed is a fair value, a quoted price on the market.

The first time that the notion of market price is explicitly mentioned as an evaluation method in the Algerian legislation is October 15, 1997, Regulation 97-01 on securities operations of financial institutions in Articles 5 and 8.

The national accounting plan gradually converged on international accounting standards and financial accounting. Accounting in Algeria is not reset in the way of what was happening in the world. If in the United States the movement of accounting at current cost started in 1970. In Algeria the accounting at current cost began in 1988. The revaluations of assets were the initiation of the Algerian accounting model and logic to current cost accounting. As stented by Christensen and Nikolaev (2013) revaluations can serve the purpose of conveying information about the assets' current values. Muller and al (2008) Also stood that revaluation model is a fair value-type accounting treatment for investment and properties.

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IV. The Financial Accounting System the Concept of Assets and Methods of Valuation

Before the application of the financial accounting system (SCF 2007), the public authorities carried out the last revaluation of the assets by the decree n 07-210 of July 04, 2007. But this one concerned the depreciable and non-depreciable fixed assets. As a result, the last revaluation affected all tangible assets. The purpose was to show the fair value of the property, plant and equipment of the companies before the entry into force of the new accounting model that converges with the IAS / IFRS international standards and of which it takes up most of the standards. The revaluation of tangible assets [5] is a change in accounting estimate that is justified by the change of circumstance, it aims to reveal more realistic and reliable information.

The financial accounting system has been applied by Algerian companies since January 1st, 2010. Inspired by international standards, it provides Algerian accounting with a conceptual accounting framework in which it gives priority to the economic substance over the legal reality. The law on the financial accounting system determines the rules for valuing and recognizing assets, but also liabilities, expenses and income. It uses the valuation method at historical cost. This principle [6] is used in the preparation of financial statements as a general rule. It corresponds for goods acquired for a consideration at their acquisition cost, for contributions in kind at their contribution value, for goods acquired for free at their fair value on the date of entry.

The financial accounting system for certain elements and under certain conditions, sets alternative methods of valuation at historical cost. These are the fair value (or current cost), the realizable value and the discounted value (or value in use). In addition, the SCF regulations refer to another concept, the recoverable amount.

A. *The concept of fixed assets under the SCF*

With the advent of the SCF, the notion of asset evolved and the definition that is formulated is that of IFRS. An asset is "the resources controlled by an entity because of past events and from which it expects future economic benefits"

Non-current assets are those that are intended to be used on a continuing basis for the purposes of the entity's operations, such as property, plant and equipment, intangible assets or that are held for long-term investment purposes or that the entity does not intend to carry out within twelve months of the closing date of its financial year ". With the application of the substance over form principle, legal ownership is no longer a condition for classification as a fixed asset, and capital assets under finance lease contracts have been included in the balance sheets of Algerian companies since 2010.

B. *fair value (or current cost*)

As explained above, the fair value measurement of capital assets is not a new method in the Algerian accounting. This evaluation already existed at the time of the NCP. If at that time it could be practiced only in time of revaluations or reserved to the accounting of the financial sector to the securities of investments. Under the SCF, fair value measurement is mandatory [7] for biological assets (convergence to IAS 41), investment properties (convergence to IAS 40), available financial instruments (for later sale, convergence to IAS 39, IFRS 9). But if reliable fair value is not available for those items, companies record at the historical cost.

The fair value is defined in the SCF in the same way as it is defined in IFRS 13 prior to 2013. The definitions and treatment of the valuation of fixed assets are identical to those set out in IAS 16 in paragraph (6, 7, 14, 28, 29).
Effective January 1, 2013, IFRS 13 provides a different definition of fair value that is: "the price that would be received for the sale of an asset or paid for the transfer of a liability in a normal transaction between stakeholders". Market on the valuation date ". This definition of fair value is identical to the definition provided by the SCF of the net selling price of an asset (exit value) and is also consistent with the definition of the realizable value.

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C. The realization value

The financial accounting system defines the realizable value as the "amount of cash that could currently be obtained by selling the asset on voluntary retirement". This definition is included in the accounting literature as the output value.

D. *Present value or utility value (discounted value)*

The Financial Accounting System defines present value or value in use as "the present value of the estimate of future cash flows expected from the continued use of the asset and its disposal at the end of its life utility ". This value is an estimation value which is assessed according to the market and the utility of the good for the company. It refers to two concepts of value: market value and value in use. Since an asset is an element that generates future economic benefits. Value in use is based precisely on this notion. Discounting the value of the property is the current estimate of future economic benefits that will result from the use of the property in question. The fair value of a good is determined either by reference to the market price if it exists for the benefit of an active market or by discounting using a discount model or discount factor, or on the basis of the expert opinion. (The same logic of value determination as that of revaluation).

For the items mentioned above that are required to be recognized at fair value. The changes in value have an impact on the result and are recorded either: in charge in the case of capital losses or in income -which is taxable- in the case of capital gains.

E. *Assessment of fixed assets: Another authorized treatment*

For other fixed assets, recognition is based on the historical cost principle. However, they may be re-evaluated. The purpose of the revaluation is to correct the value entered in the balance sheet if it no longer represents reality and does not allow a fair presentation of the company. The value to be disclosed by the revaluation is the fair value of the asset at the date of the revaluation. For these fixed assets, the revaluation difference appears on the balance sheet under the revaluation difference item.

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- Article 06 of Law 07 of 25 November 2007 Bearing Financial Accounting System, Articles 112-1, 112-2 of the SCF Annex containing asset valuation rules. [6]
- Articles 121-16 to 122-5 of the SCF Annex containing asset valuation rules [7]

V. Conclusions

In Algeria, since 1988, the methods of valuing fixed assets have changed. This trend tends to follow the current cost accounting movement that emerged in the United States and around the world in the 1970s as a result of high inflation. In order to take into account the impact of inflationary phenomena and to ensure that the faithful image reflected in the accounts does not deviate from reality and is not distorted. The national accounting plan (NCP 1975) gradually converged towards a logic of financial accounting and consequently towards international accounting standards. In terms of valuation methods, the financial accounting system (SCF 2007) does not introduce any significant new developments. It introduces the obligation of fair value measurement for specific assets. Although the Algerian government has embarked on a process of convergence with international IFRS standards, but IFRS foundation does not comment on the Algerian accounting model.

Measurements of assets allow the recognition of fixed assets at fair value on which inflation has had a significant impact. Successive re-evaluations, whether based on coefficients or

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on replacement or market values, are only monetary adjustments without any impact on the economic environment, it performance, efficiency or simply

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