

# **Impact of profit Accounting Processing on the National Economy**

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Received: 15-02-2022 Accepted: 04-12-2023 Published: 31-12-2023

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## **Abstract:**

This research aims to study the Impact of accounting treatment of profits on the national economy, and this is based on the legal accounting and auditing methods used in the economic field, mainly represented in the correct way to calculate profits, and the results reveal a relationship between the concept of accounting treatment of profits and the national economy, as the analytical approach Through the study reveals the existence of a negative impact on the economy, if the method of calculating profits contrary to economic legislation, but if they are identical, this impact will be positive on investment and the national economy.

**Keywords:**Accounting, profit, Auditing, National economy, Economic legislation.

## **1. Introduction:**

The study of the impact of accounting treatment of profits on the national economy is of great importance as means of knowing the nature of this impact, either positively or negatively on the economy, where the concept of economics is closely related to the accounting treatment of profits, it depends on the economic and commercial institutions and the degree of increase of national production, and this is shown by the profits they make, which is the source of the operations carried out by these institution, whose managers must give the real value of this profit achieved through the correct and accurate calculation of these profits. That would give real economic figures

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that help to calculate the national economy, for example, it helps to control the calculation of taxes on the number of business realized by these institution or commercial companies, where these taxes are considered a main source of the national economy.

However, if the computational treatment is unwise and contrary to the applicable economic laws, it has very negative impact on any national economy of any country in the world. WorldCom in the US and other international companies are subjected to significant financial difficulties due to the manipulation of their financial statements.

Thus, the problem of the study to be addressed in this research is: **what is the impact of accounting treatment of profits on the national economy?**

#### **Study hypotheses:**

This study is based on some hypotheses that can be put forward as follows:

**The first hypotheses:** The profitability is an important indicator for evaluating the role of companies in activating the national economy.

**The second hypotheses:** There is positive and negative impact of accounting treatment of profits on the national economy.

**The third hypotheses:** The accounting treatment of profits is one of the most important methods that help to calculate the output of the national economy.

#### **The importance of the studying:**

The importance of the study is of the utmost importance that institutions and commercial companies have become through their effective role in the advancement of the national economy.

#### **Objectives of the study:**

This study aims to achieve two main objectives:

Highlight the impact of accounting treatment of profits on the national economy.

Determine the correct legal framework for accounting treatment of profits.

## **2. The concept of accounting treatment of profits:**

Before dealing with the definition of the concept of accounting treatment of profits must first determine the true meaning of the French jurist **Philippe Merle** defined as part of the profits distributed

by the company to all shareholders, a value determined by the Annual General Assembly (MERLE, 2003), as another aspect of French jurisprudence profit is defined as any cash amount distributed to partners at the end of Fy ( MICA - GOUDET, 1998). In another definition, distributable profits are minus paste losses and legal and systematic deduction (MOULIN, 2006), and clear definition of profit is also given by a famous decision called **MANIGOD** of the French court of cassation ,where the judge defined the profit as all monetary gain added to the partners' wealth (J.DELGA, 1998). It should be noted that this concept differs from the concept of economics aims at achieving monetary savings (least expense) (P.DIDIER, 1999).

Now that the true meaning of the term profits has become clear to the reader, it is now possible to determine the exact concept of accounting treatment of profits, and with reference to profits are a positive increase in assets over liabilities under an annual inventory or budget preparation as known in accounting (RIPERT and ROBLOT, 2002) this is known as the accounting treatment of profits, but when researching this concept should first stop when estimating and evaluating the company's assets and liabilities and then address the amounts or expenses that should be deduction provided from gross profits in addition to the reserve deduction provided for the law or the company's system.

## **2.1. Estimating the company's assets and liabilities:**

At the end of each financial year, businesses and companies are obliged to make an inventory of the various assets and liabilities. However, prior to the inventory, the company prepares a trial balance prior to inventory (ABDUL KARIM MANSOUR BIN AUF, 1996), which allows for monitoring of the validity of recorded records. For the following reasons:

- Accounting records may be wrong.
- Failure to record certain operations, such as a decrease in the values (depreciation and allowances) relating to certain elements of assets.

Inventory: means the identification of the component of the real situation of the company at the date of preparation of the business at the end of the financial year. All such details shall be recorded in the inventory book which shows all the company's assets, whether movable or fixed, tangible as indicated. Article 20/p1 of Law 07-11 stipulating the financial accounting system stipulates that "the entities

subject to this law shall maintain accounting books that include a daily book that include a daily book, a large book and an inventory book, taking into account the provisions of small entities", and in accordance with the provisions of a Article 20/p2 of the same law, the inventory shall include the budget and the account results:

•**budget:**

By examining the accounting documents maintained by the budget document, which is one of the financial statements that the board of directors or administrators must set in order to disclose the financial position of the company, we note that it consists of two aspects: the first relates to (assets) and the second to (liabilities):

-**Assets:** The Algerian legislator defined in article 20 of the Executive Decree No. 156-08, the application of the provisions of Law 07-11 as: «the resources that the entity is driven by past events and intended to provide future economic benefits", Article 21 of the same decree categorizes them into current and noncurrent assets, also known as fixed assets and current assets, should appear in separate groups:

- **Fixed assets:** such as real estate and movables owned by the company such as land, building, machinery, cars, machinery, furniture, and intangible movables such as patents, drawing and designs.

- **Current assets:** no-fixed or variable, including commodity inventories, ores, fuel and spare parts, non-full and under- production, full production; goods purchased for sale, documentary credits for the purchase of good, current accounts, investments in securities and cash at banks Fund,.. etc (ALORAINI, MOHAMMAD FARID, 2008).These assets should be valued by the management board according to their value at the time of the inventory at the end of the financial year of the company's incorporation. These assets should be calculated because the value of these assets decreases over time as a result of repeated use or decrease in the purchasing power of cash.

**Liabilities:** defined in Article 22 of Executive Decree No. 08-156 mentioned above: "the current obligation of the entity resulting from past events, whose expiry is the proportion of the entity to the exit of resources representing economic benefits" and should be recorded under this item of liabilities:

- The company's national capital, total unpaid amounts and the value of paid-up capital (subscribed).

- Company reserves: the statement of capital must be followed by the statement of voluntary reserves and capital reserve.

- Provisions: includes the amount allocated for the amount allocated for the payment of income tax and the amount allocated for the payment of social security premiums and the amount allocated to the remuneration allocated to the remuneration of members and the provision of scientific research and training, and wages.

-Liabilities: this includes fixed liabilities such as bonds, long-term corporate loans, liabilities to banks and corporations, creditors' rights, accrued wages and accrued expenses, and the retained earnings are also recorded in this section of the balance sheet.

- Obligations of the Company before third parties such as realized debts and police debts such as costs and insurance (SALEH MOHAMMAD, 1949).

After assessing the assets and liabilities of the company and comparing them, it is possible to verify whether the company has suffered a loss. However the company has made profits, it is not permissible to distribute them because they are gross profits, certain expenses of which must be deducted according to the law.

### **2.1.1. Deducted expenses from gross profits:**

The total profits realized by the company cannot be distributed to the shareholders only after making the necessary deductions set by law to be net profits, which consists of the net product of the fiscal year after subtracting the general expenses and other costs of the company by including all depreciation and provisions such as overheads and necessary costs such as debt and interest on loans and amounts which is allocated for depreciation or allocation for the annual depreciation of the company's shares or is the profits resulting from the operations initiated by the company during the financial year after deducting all the calculation of sufficient the depreciation and provision for accounting assets to be avoided or eliminated (TAHA MOSTAFA KAMAL, 1998), which is clearly shown in the results calculation table (Result table) which shows the net result of profit or loss incurred by the company after deducting depreciation and provisions (M.SALAH, 2005), where its function is to compare income fiscal year (LANFUMEZ, 1995), more detailed-ie: comparing the various sales (The sales): (Business number) and (Purchases) such as purchases of goods, raw materials and other purchases, and other purchases, and external services (L.MOUFIDA, 2011), and through these comparison the net profit for the financial year can be

recognized after subtracting damage to the depreciation and provisioning.

**Table (1): Results account (by nature)**

	Note	N	N-1
Business Number			
Change in inventories of manufactured products and products under manufacture.			
Proven production			
Support exploitation			
<b>1- fiscal year production</b>			
Consumable purchases			
External services and other consumption			
<b>2-Depreciation of the financial year</b>			
<b>3-The added value of exploitation (1-2)</b>			
Burdens of users			
Taxes, fees and similar payments			
<b>4-Total surplus from exploitation</b>			
Other operational products			
Other labor burdens			
<b>5-Operational result</b>			
Financial products			
Financial burdens			
<b>6-Financial result</b>			
Regular result before tax (5+6)			
Taxes to be paid for regular results			
Deferred taxes (changes) about normal results.			
Total products of regular activities			
Total burdens of regular activities			
<b>8-Net result of normal activities</b>			
Extraordinary items - Products ( to be indicated)			
Unusual items - burdens ( to be indicated)			
<b>9-The result is extraordinary</b>			
<b>10-Net result for the financial year</b>			
Share of companies placed in the equation in net result			
<b>11-The net result of the combined sum (1)</b>			
Including the minority share			
<b>Share the complex (1)</b>			

**Source:** Order of 26 July 2008, Official Gazette 25 March 2009 number 19. p30.

**Table (2): Results account (by function)**

	Note	N	N-1
Business Number Cost Sales <b>Generating Growth</b> Greater Products Other Operational Costs Balanced Branches Bureau Bulleting <b>Process Operation Process</b> Process Details By bases ( NBA) (Mainland) User's Financial expenses Financial burden) Te regular Financial burden of the regular Basis of the regular Results of the regular Outcome of the regular			
Outcome of the normal activities of the regular basis for the financial Statements the company's topic equation The results of the characteristics (1) The result of the minority (1) Share the two minority (1) Share the complex (1)			

**Source:** Order of 26 July 2008, Official Gazette 25 March 2009 number 19.p 31

### 2.1.2. Deductions for the formation of capital reserves:

Amounts deducted as a reserve are economically significant as they are the most important source of self-financing for the company and are deducted from the net profits to meet a specific purpose or to achieve a target (ABDULLAH, KHALID AMIN, 1998). Because of their importance they are divided into:

#### •Legal reserve:

Most legislation requires companies to deduct from net profits after the value of the previous losses subtracts at least half a tenth of the bonds to form a legal reserve money under the nullity of any contravention deliberation. It shall not be deducted from the profits as invalidated by any deliberation issued by the Annual General Assembly that requires or decides to distribute dividends before making such legal deduction, which shall be included as mentioned above in the budget liabilities. This means that the company can deduct more than 5%to from a legal reserve. However, according to

the second paragraph of Article 721 of the commercial Law the deduction of this portion is not mandatory if the reserve reaches on tenth of the capital (10%). The deduction of the statutory reserve from net profits raises some forms of jurisprudence on the undistributed profit in the previous fiscal year (the recycled profit), which had already been deducted from one to twenty, Should it be done again? In the absence of practice, this profit is not deductible, as it is legally a reserve (B. MERCADAL and Ph.JANIN, 2002).

• **Statutory reserve:**

It is the reserve imposed by the company's statute as it is formed by the general assembly by deducting part of the net profit in each financial year based on a provision in the basic Law and so called the Constituent reserve ( Ph.MERLE). This type of reserve is allocated in order to strengthen and strengthen the company's financial position during ( RIPERT and ROBLOT, 1996). It is noted that the statute of the company determines the purposes for which the statutory reserve is allocated (TOUNSI, HUSSEIN, 2008). It is therefore not permissible to dispose of these types of reserves other than those allocated to them, which should be used for the benefit of the Company's through its participation in the economic activity.

• **Free reserve:**

It is also called the voluntary reserve because its report is by the General Assembly of the shareholders at its annual meeting, whenever necessary, the company may face potential conditions such as a dramatic increase in commodity prices and protection of economic interests (RADWAN, ABU ZEID, 1989). However, leaving it absolutely free the public freedom of the company may result into continued deduction of profits, which leads to a decrease in dividends distributed to shareholders, which affects their desire to continue their desire to continue their activity within the company and thus affect the activation of the national economy, but we believe that as long as the optional reserve can be invested N by the board of Directors, the legislator does not stop requires to continue because deducted composition of this reserve does not lead to the freezing of funds and disable them from participating in Alaguetsaa activity.

The profits are computed and distributed within commercial companies such as SARL and shown in the following table:



**Table (2) : Accounting treatment of profits**

	Net profit aftertax		XXXX
-	Mandatory precautions (provisions)	-	XXXX
	• Legal reserve		
	• Long -term excess reserves		
+	Repatriation of creditor for the year (N-1 )	+	XXXX
=	Profit to be distributed	=	XXXX
-	First profit (statutory interest)	-	XXXX
-	Provisions for other reserves ( optional)	-	XXX
=	The remaining balance	=	XXX
-	Biggest or second profit	-	XXX
=	Repatriation of creditor for the year (n)	=	XXX

**Source:** Ghazi Mohammed Lectures on Corporate Accounting, 2016.

A.B.G is an Algerian joint stock company with an authorized capital of 500.000.000 DZD and its subscribed capital of 250.000.000DZD, with an annual net profit of 100.000.000DZD:

**Table (3) :**

Legal reserve	<b>100 000000×5%</b>	<b>5 000 000</b>
Statutory reserve	<b>100 000000 ×10 %</b>	<b>100 00000</b>
Optional reserve	<b>100 000000×15%</b>	<b>1500 000</b>
Shareholders %) profit (5	<b>×250.000.0005%</b>	<b>12 500 000</b>
Total dividends	<b>5 000000+ 12.500.00+15.000.00+10.000.000</b>	<b>42.500.000</b>
The rest of the Profits go away	<b>42.500.00–100.000.0000</b>	<b>57.500.000</b>
Share of founding Shareholders	<b>57.500.000 × 3%</b>	<b>1725.000</b>
Shareholders Profit (%10)	<b>250 000×% 10</b>	<b>25.000.000</b>
<b>Total Shareholders Profits</b>	<b>Profit 5% + Profit 10% 12500000+ 25000000</b>	<b>37.500.000</b>
Total distributable Profits	<b>5000000+ 10000000 + 1500 000 + 37.500.000 + 1725.000</b>	<b>69225.000</b>

### **3.Relationship of accounting treatment of profits with the national economy:**

Increasing national production to the extent that fulfills the objectives of the general plan for economic development and raising the standard of living requires the expansion of investment through the establishment of large commercial institutions and companies that will activate the national economic production that entails profits for Shareholders, through which it can be seen whether these companies have a role in activating the national economic activity after the latter calculate the profits achieved, hence the significant relationship between the accounting treatment of profits and the national economy, and given this importance, the majority of countries have been subject to control, especially the profits resulting from the various operations carried out by the companies are subject to taxes that fall within the economic budget of the state. As a result, the state is keen to ensure that these profits are correct and not contrary to the economic laws when calculating them especially that they do not violate the aforementioned law No.07-11 above. It also punishes anyone who manipulates the company's financial statements. Because the importance of the activity carried out by these companies for the national economy is no less important than the importance of the projects that the state establishes, or the participation of part of their names by their public institution. Therefore, companies that exploit private capital are subject to various types of government control, especially control over annual profits.

This strong relationship between the accounting treatment of profits and the national economic activity is evident when we see the state practice of some kind of supervision or control over the companies from which it obtained the facilities. The government requires the concessionaire to allocate a percentage of the profits to it. Moreover, the jurists and economists assert that commercial companies are best suited to the economist's activity of the state, which made the latter enter into commercial investments through companies, especially the joint stock company. The goal is to create a system that develops the national economy in line with state policy.

#### **4. The impact of accounting treatment of profits on the national economy:**

It is clear from the great relationship mentioned above that the accounting treatment of profits has a significant impact on the national economy. As a result, various economic legislation of the world are keen to ensure that such accounting is true in conformity with this legislation, because the calculation of profits legally by the members of the Board guarantees shareholders rights. Which increases their significant role in activating the national economic activity, and therefore we find that the Algerian legislator interferes in the organization of the finer matters of the accounts of the company examples of what we have mentioned above when studying the concept of accounting treatment of profits where the legislator obliged to Companies shall deduct from the net profits after the value of the previous losses shall be deducted from them at least half a tenth of the bonds to form a legal reserve. This shall be subject to the nullity of any contravention deliberation, and also its keenness to prevent the companies from forming a hidden reserve. It is stated that is not referred to in a budget line which the board of Directors may form by overestimating the company's obligations or valuing its assets undervalued, either in order to hide large profits realized by the company so as not to increase speculation On shares A or in order to evade taxes due or avoid the risk of loss that may affect the company's. Because this hidden reserve does not give a true picture of the financial situation of the company (R.Rodière, 1967) Which affects the national economy of any country in the world.

The keenness of the Algerian legislator to protect the national economy from manipulation of financial statements in the calculation of profits to technical control exercised by the governor of the accounts monitor their annual accounts. It is noteworthy that the latter enjoys independence (Castell and F.Pasqualini, 1995) as it is not shareholders partner, nor an agent of shareholders, but is considered merely a person appointed to exercise the law-inspired control over the company's balance sheet and profit and loss account. It is noteworthy that this independence of the makes the Governor of Accounts an effective supervisory body vi-à-vis the Comptroller (D.VIDAL, 1993). This is without any interference in the management (M.SALAH, 2007) because the dependence of the portfolios of accounts to shareholders creates a serious risk to the financial weight of the company, which leads to mismanagement and the development

of irregular and incorrect accounts to facilitate misuse of the company's funds, embezzlement and forgery, which results in a bad financial situation and the bankruptcy of the company, which has a major impact on the national economy. The misuse of the company's funds and embezzlement and fraud, which results in a bad financial situation and then the bankruptcy, obliged the governor of Accounts to submit an annual report disclosing violation of the Law during the Governor of Accounts must report by means of a notification public or public prosecutor ( F. ZÉRAOUI SALAH and M.SALAH, 2007) and (D.VIDAL, 1985).

Thus, it can be argued that accounting treatment of profits affects the national economy either positively if its calculation is in a valid legal way. If its treatment and calculation is contrary to economic legislation and is not subject to control and governance or the principle of good economic management, it negatively affects the national economy.

## 5. Conclusion:

Concern from the study of the accounting accountability of profits to the national economic, the that any State no matter how important economic, the country's negotiations can be affected by the financial statements that are trained by the commercial companies, which are among the main reasons of economic creativity, as a result of the absence of the successful governance in the organization of corporate credibility, said the conclusion of the profitability of the national economy that any of the most important factor in the organization of the economic in the field of government, which has been more than the study that the most important levels of government governance cannot be able to make a good interest in the achievement of the personal economy is not in this regard. The world's most recent economic legislation is in place. The results of the study the of the accounting of the business are in place. The study of the relevant business accounts the **results** of the study the following:

- The intention of the Finance of the corporate financial budget by Act No. 70-11 of the 25 November 2007, The Financial accounts of all financial institution have Benn committed to the various ECAs in the region's compliance with the inventory of the assets of the company and the license, but the prevention of the inventory of the company's status and activity: this is even the guarantee that the development of a

result of the company's elevation and the license, and that the most important of the world's mainstreaming is the first in the first premium.

- One of the most important client-based documents must also prepare it so that it can prepare a valuable budget of the results account that shows the net output of the profits or loss of the company (The sales): (Business number) and procurement (Purchases), which is between the table (1), which shows the calculations of the financial year after the discount of all costs to achieve these profits and after a permission to all the consumer and prospects that require the accounting assets by the area of the first premium. The results of the study are presented to the premium of the national economy, especially the important methods of helping the accounting of the national economy, the results of the study of the national economy capital.

- The previous studies have shown that companies in which the profit rate is large in the field of economic as a result of good liquidity and this reversal of the company's low or offline as its opponents are more than as well as the company's poor results, which shows the weakness of these companies in the achievement of the common economic benefit.

The accounting treatment of profits is not the basis of the management of the national economy, especially if the company's budget is correct approval of the laws. In the framework of the strict accounting treatment of profits, the region cannot be said that the strict laws of the annual budgets in the public sector, the most important in the financial economy of these companies in the financial statements, especially if there is a rigidity of the company's corporate capital. Therefore, we **propose** to the Algeria legislator:

-The need to subject the accounting treatment of profits to strict laws regulating them so as not to negatively affect the economy as a result of manipulation of the financial statements of public and private sectors institutions and companies.

-The need to ensure the organization of accounting treatment of profits and subject them to the technical control exercised by the financial accounting experts in order to have a positive impact on economic output.

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