

## Algeria's Conceptual Framework: Is it a Problem or a Solution?

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### ABSTRACT

*The following is a description of the research problem: Is the conceptual framework viewed as a problem or a solution for achieving accurate financial statement presentation? The outcomes of the research study revealed that organizations, as well as accounting practitioners, confront several challenges while implementing the conceptual framework, particularly in terms of its evaluation component. According to those businesses and accountants, the conceptual framework has become a major problem for proper presentation rather than a solution. As a result, all stakeholders have voiced a desire to return to the account structure for small and medium-sized enterprises (SMEs) in order to simplify and facilitate accounting.*

## 1. Introduction

Prior to the conceptual framework, accounting theorization was characterized by a wide range of thought, making the conceptual framework difficult to apply. Indeed, the conceptual framework is being implemented in a number of countries, and it has received a slew of positive feedback.

Algeria has also used the conceptual framework, based on the International Accounting Doctrine. According to some accountants and companies, this application has neither the expected impact nor the ability to improve the accuracy of financial statement presentation.

### Study Problem:

The problem of this study can be formulated in the following main question:

**Is the conceptual framework the problem or the solution to presenting financial statements accurately?**

### Objectives of the study:

The study's main goal was to emphasize the conceptual framework's implement ability, as well as to uncover accounting practitioners and organizations' potential recommendations to improve accurate presentation.

### Study Approach:

The descriptive approach was used to define and assess the problem posed, and the exploratory field study approach was used to qualitatively by looking at surveys conducted through four groups.

### Study Structure:

This study was divided into two parts:

- ❖ The Conceptual Framework and Its Divergences
- ❖ Quantitative and Qualitative Study

## **2. The Variations in the Conceptual Framework**

Accounting theories all work together to form a theoretical basis for accounting practice. There was a need for or importance to finding a solution to heal the divide prior to the diversity of accounting theories, which is not useful in the context of market globalization. The opportunity arises because of the establishment of professional accounting organizations and the dissemination of a new accounting theory by numerous authors and nations throughout the world. It was developed by utilizing the conceptual framework idea, which is a cohesive set of connected aims and fundamental concepts that is capable of producing solid standards and indicating the nature, purpose, and limitations of financial accounting and financial statements.

The new modern accounting theory serves as the conceptual basis. The conceptual framework, according to (Colasse, 2020, p. 1237) reflects a theory of accounting, but (Richard & Collette, 2000, p. 32) define accounting theory as a normative theory. As Colasse pointed out in his contribution to the conceptual framework, it has a number of roles and methods that allow it to be a helpful instrument. A conceptual framework's principal function is "to lead to strong rules identifying the nature, role, and limitations of financial accounting and financial statements." As a result, it is the intellectual method that acts as a guide to create standards inductively, i.e., it is a standard or meta-standard generator.

This primary function is grafted with derived functions. An explanatory function, an evaluative function, and a predictive function are the three types. The conceptual framework enables for interpretation and assessment because it is based on observed facts. Furthermore, when a new problem develops that has not previously been subjected to a treatment standard, the answer can be predicted. A conceptual framework's various features make it a helpful tool not just for standardizers, but also for consumers of accounting data. For which there may be an interpretation grid of the firms' accounts, as well as an assessment tool for account auditors. Finally, because of the conceptual framework, the difficulties that were not handled by standardization (Colasse, 2020, pp. 94-954) can be solved by the processors of these same accounts.

Before the conceptual framework, accounting theorization was characterized by a wide range of thinking patterns, making it difficult to apply the conceptual framework. Indeed, there are multiple objections and countless supportive perspectives about the construction of a conceptual framework that unifies all accounting concepts.

These opinions were introduced by Belkaoui and can be summarized as follows (Belkaoui, 2009):

Demski and Joël (1974) assert the difficulty of developing universal accounting standards that can be applied universally through all accounting theories. Cushing (1977) proposes the partial use of accounting rules in response to this negative viewpoint. Bromwich (1980) disagreed with this idea, believing that the conceptual framework must be completely implemented in order to fulfil its goal of providing a theory that makes financial information useful for decision-making.

Applying the conceptual framework to multiple accounting information consumers is problematic, according to Belkaoui. Horgren (1981) proposes analyzing and validating the logic and reasoning that make up the conceptual framework parts in order to achieve the conceptual framework's fundamental function in the acceptance of financial statements, which is generated by various users inside the conceptual framework. The author goes on to say that when the aspects of the conceptual framework, reasoning, and base of evidence are more logical and actual, the framework will be more compelling for diverse users.

Using the conceptual framework principles to pose the study topic consistently raises the concerns of several authors. Will the conceptual framework be able to take the lead in addressing accounting divergences caused by different accounting theories? As a result, Douch and Sunder (1980) are doubtful of the conceptual framework's ability to solve accounting problems or establish standards.

The conceptual framework is frequently referred to as a constitution; thus, Solomons (1986) suggests:

- ❖ The constitution possesses legal authority. The conceptual framework, on the other hand, lacks that feature.
- ❖ The constitutional text contains random elements, although the intellectual foundation does not.
- ❖ Diversity is a barrier to adopting an unified conceptual framework in many countries.

Miller (1985) indicates that the conceptual framework reflects a policy document that is not an authority system for resolving accounting issues, as it does not introduce all existing accounting applications' descriptions. It is merely a stepping stone for future accounting controversies. Pacter and Paul (1983) argue that the conceptual framework will not solve all accounting problems, but at least it provides an accounting standards development basis that mitigates

accounting discrepancies between countries. Belkaoui's opinion is among the quoted optimistic perspectives about conceptual framework application. He identifies an index of conceptual framework success, which comprises the number of conceptual frameworks that are already implemented in many countries.

Solomons, as an activist, advocates the conceptual framework against the fundamentalists that is considered an essential tool to develop accounting standards, according to him. According to their economic consequences, activists are the standards choice proponents, and fundamentalists are the accounting radical vision promoters, which involves the idea that accounting is just a tool that is developed and monitored by the leading establishment to maintain its dominance. Solomons has taken part in standardizers' conceptual framework development, but he does not share all the outlined objectives of this organization. One of its divergences is the accounting standards scope at the political level, which must not be against accounting information neutrality.

Therefore, he is opposed to people who have different visions towards accounting standards, such as those who advocate the fundamental vision, such as Tinker, or those who advocate a less rationalist and more pragmatic approach, such as Gerboth, Stamp, and so on. Finally, to some extent, it seems to be as a member of the American accounting establishment, which helped in setting up these institutions and in their performance. These institutions cannot serve interests other than their displayed interests (Colasse, 2005, p. 194).

Solomons' method is prescriptive, according to Colasse, and presents accounting theory as a conceptual framework. We will determine the practitioners and companies' viewpoints in Algeria about the adoption of the conceptual framework and, from there, the accurate presentation of the financial statements after a brief introduction to the numerous divergences throughout the world.

### 3. Quantitative and Qualitative Study

This research forms a component of the research determining variables to offer answers to the following problem: Is the conceptual framework the problem or the solution for presenting financial statements accurately?

The survey was conducted among four different groups, namely:

- ❖ large enterprises
- ❖ Small and medium-sized enterprises (SMEs),
- ❖ Chartered Accountants' Practitioners
- ❖ Certified Public Accountants

#### 3.1. First Group Large Companies (LC)

A sample of 24 enterprises that perform different activities were selected for this group: Hotel Industry; Tourist Complex; Food Processing Industry; Household Electrical Appliance Industries; Metal and Steel Industry; Pharmacy; Milk and Cheese Exploitation; Buildings, Public Works and Hydraulics Company (PWHC); Building Properties; Passengers' Transport; Automobile and Hydrocarbon. The 24 respondents have mentioned many problems when applying the conceptual framework. Typically, their expectations about the encountered problems are related to the following:

**Table 1:** Reviews about Conceptual Framework

Problems in the Conceptual Framework (Responses clustered by the Problems Group)	Citations Response Number	Citations Response Percentage
The conceptual framework assessment aspect is not applied properly since there is a lack of markets, which significantly affects the accurate presentation of the financial statements assets to measure fair-value	17	70%

Large corporations that priorities the legal aspect of the business on the economic one	7	30%
<b>TOTAL</b>	<b>24</b>	<b>100%</b>

Source: Prepared by the researchers

As was illustrated in the aforementioned table, the most frequently mentioned problem by large companies is the assessment aspect of the conceptual framework, which is not properly applied because of the lack of markets that has a significant impact on the accurate presentation of the financial statements.

This problem was identified by 70% of respondents. The second issue that had been mentioned by respondents is that almost 30% of them still have the problem of applying the accounting principle of the dominant substance over form because the managers have a fiscal and unaccountable problem. This failure affects the financial statements accurate presentation quality. Thus, all stakeholders have raised the need for the accounting dis-connection from taxation, with the establishment of active markets as one of the proposed suggestions to improve the accurate presentation.

### 3.2. Second Group: Small and Medium-Sized Enterprises SMEs

For this group, we selected a sample of 200 SMEs whose bookkeeping is not outsourced to an external office. However, for each SME, we interviewed financial and accounting managers about various issues related to this research study objective. The selected companies are from different sectors: industrial, commercial, agricultural, and service. In this sample, the respondents mentioned many issues concerning the conceptual framework application. Typically, their expectations about the encountered problems are related to the following:

**Table 2:** Reviews about Conceptual Framework

Conceptual Framework Problems (Responses Clustered By Problems Group)	Citations Response Number	Citations Response Percentage
The tax measures are more commonly observed than the accounting ones. No emphasis is placed on improving financial statements' accuracy of presentation. The only concern is the tax issue.	90	45%
Corporate accountants privilege the legal side of the economic aspect. They find that the conceptual framework is unsuitable for the economic context, which creates problems concerning its application. Stakeholders would rather return to the account chart to facilitate and simplify the accounting system.	80	40%
Failure of active markets to measure fair - value	30	15%
<b>TOTAL</b>	<b>200</b>	<b>100%</b>

Source: Prepared by the researchers

As was illustrated in the aforementioned table, the most-mentioned problem in this sample is the interest given to tax provisions, which are more remarked than accounting provisions. So, no significance is given to improving the accuracy of financial statements, so the only concern is the tax issue.

Companies comply with tax rules more than accounting provisions. Financial statements are affected by tax rules with respect to depreciation, provisions, impairment losses, incomes, and so forth. 45% of respondents have noted that this problem hampers the accurate presentation of financial statements. Along the same vein, the second problem highlighted by almost 40% of companies continues to be the large number of legal prerogatives over economic provisions. In fact, this accounting cultivation leads to substance dominance accounting principle application. This has a significant impact on the accuracy of the financial statements.

Many companies consider that the conceptual framework is unsuitable for the economic context because it raises many problems concerning its application. To overcome this shortcoming, all stakeholders have mentioned the need to revert to SME account charts and to narrow the application of the conceptual framework only to companies listed on stock markets. 15% of SMEs mentioned a third problem that is related to the absence of active markets to measure the fair value of movable and immovable items.

### 3.3. Third Group Chartered Accountant Practitioners

During the survey, the number of Chartered Accountant Practitioners registered in the Chartered Accountants Organization list was 2,120 (for this sample). The group sample is limited to 400 participants, i.e., 20% of the whole number. Many of the 400 respondents mentioned many problems when applying the conceptual framework. Typically, their expectations are related to the following:

**Table 3:** Reviews about Conceptual Framework

Conceptual Framework Problems (Responses Clustered By Problems Group)	Citations Response Number	Citations Response Percentage
The conceptual framework is hardly illustrative and is not appropriate for mainly SMEs economic context. To facilitate and simplify the accounting work, they recommend reverting to the account chart	230	57%
Lack of active markets and determination of fair-value, which raises the problem	170	43%
<b>TOTAL</b>	<b>400</b>	<b>100%</b>

**Source:** Prepared by the researchers

The most mentioned problem by chartered accountants is that the conceptual framework is ambiguous and it is not appropriate to the economic context of mainly SME companies, which have the same sole concern about the financial reporting tax issue that was mentioned by 230 respondents, with no accounting requirements.

The most common problem, which was mentioned by 230 respondents (chartered accountants), is that the conceptual framework is hardly explanatory and inappropriate for the economic context of accounting requirements.

The second issue with the conceptual framework that has been mentioned by approximately 43% of chartered accountants is that the absence of active markets, which represents a limit to the process of application of its terms, continues to take place, especially the provisions of fair-value assessments and determination.

In order to facilitate and simplify the conceptual framework provisions, this sample suggests reverting to the SMEs account chart. After reviewing the chartered accountants' perspectives, we will now look at another accountants group.

### 3.4. Fourth Group: Certified Public Accountant

For this sample, we have identified 100 accounting offices.

**Table 4:** Reviews about Conceptual Framework

Conceptual Framework Problems (Responses Clustered By Problems Group)	Citations Response Number	Citations Response Percentage
The conceptual framework assessment part is not applied appropriately since there is a lack of markets with the fair-value determination, which raises problems concerning the active financial statements' accurate presentation in order to quantify the fair-value	55	55%
The tax provisions are more commonly observed than the accounting provisions. Therefore, there is no afforded significance to enhance the financial statements' accurate presentation. Therefore, the only concern is the tax issue, so this failure has a significant impact on the accurate presentation	45	45%
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

Source: Prepared by the researchers

Respondents mentioned two big issues that are related to the conceptual framework: the first issue concerns the conceptual framework assessment part, which is not applied adequately because of the markets' lack of a fair-value determination, leading to a problem that affects the accurate presentation of the financial statements. The second reason is that tax provisions are more frequently reported than accounting provisions. As a result, there is no need to enhance the financial statements' accurate presentation. Therefore, the only concern is the tax issue, so this failure has a significant impact on the accurate presentation.

#### 4. Results analysis

The research study findings state that companies as well as accounting practitioners have faced many challenges in completely applying the conceptual framework because of its assessment part. According to them, the conceptual framework has become an issue of accurate presentation rather than being the solution. Therefore, all stakeholders raised the need to revert to the account chart for SMEs in order to simplify accounting while giving publicly traded companies the opportunity to apply the conceptual framework.

#### 5. Conclusion

To summarize, the four different groups' surveys had a significant influence in the formation of numerous major ideas. The following are the groups:

- ❖ Large Companies (LC)
- ❖ Small and Medium-Sized Enterprises (SMEs)
- ❖ Chartered Accountant Practitioners
- ❖ Certified Public Accountants

The following notes cause conceptual framework concerns, according to all of the findings from the interviewed groups in this study:

- ❖ The conceptual framework provisions do not provide enough explanation.
- ❖ The conceptual framework provisions are not suitable for the economic context; therefore, they create pressure and problems at their application process.
- ❖ The necessity to revert to SMEs accounts chart to facilitate and simplify the accounting work.
- ❖ The conceptual framework assessment part is not applied properly, since there is a lack of markets and fair-value determination, which cause financial statements accurate presentation problems.
- ❖ The tax provisions are more reported than the conceptual framework accounting provisions.
- ❖ No afforded significance to enhance the financial statements accurate presentation; therefore, the only concern is the tax issue, so this failure has a significant impact on the financial statements accurate presentation, and the only concern for companies and practitioners is the tax issue.
- ❖ Companies and accounting practitioners support the legal aspect dominance over economic situation, which is contrary to conceptual framework principles; and thus to the accurate presentation.

All stakeholders mentioned that these shortcomings, when applying the conceptual framework provisions, undoubtedly affect the financial statements' accuracy of presentation. which makes the conceptual framework responsible for these obstacles and issues. The stakeholders would rather revert to the SME account chart in order to facilitate and simplify the accounting work while keeping a conceptual framework with only publicly traded companies' requirements.

The gathered data in this research study are used to answer the critical issue, "Is the conceptual framework the problem or the solution to attaining an appropriate presentation of the financial statements?" To summarize, accounting practitioners and businesses experience challenges when implementing conceptual framework requirements that are insufficiently clear and unsuitable for the economic environment, according to the data. As a result, these problems will limit the accuracy of the financial statements.

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