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The Legal Framework For Long-Term (Construction) Contracts In The Algerian Accounting And Financial System From The Perspective Of The International Accounting Reference. A Comparative Study With Ifrs 15

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ABSTRACT

The purpose of this study is to present the content of Regulation 203 of the Algerian Accounting and Financial System, specific to the accounting of the construction and irrigation sectors, and to compare it with the requirements of International Financial Reporting Standard 15 “Revenue from Contracts with Customers”.

Algeria, through the adoption of the International Accounting Reference with the issuance of the Accounting and Financial System in 2007 and its effective application in 2010, has addressed the specific operations of the construction sector, classified as construction or works contracts, based on the content of the International Accounting Standards IAS 11 “Construction Contracts” and IAS 18 “Revenue” and their interpretations, which were replaced by the International Financial Reporting Standard IFRS 15 “Revenue from Contracts with Customers” in 2018, leading to the issuance of Regulation 203, which complements the Algerian accounting and financial system in 2023 for its application in 2024 in line with the requirements of the new standard.

The study adopted the deductive method, which is a deductive process, as the study started from a generally accepted theory to conclude it in a specific framework, where the tool of description is the theoretical aspects of the IFRS15 standard and Regulation “203”, and the tool of comparative analysis between them was also used.

The study concludes with elements of similarity and others of dissimilarity, which reveals the inconsistency of Regulation 203 with the content of the IFRS15 standard.

The importance and novelty of the subject for the Algerian accounting legislative environment justify the conclusions of non-compliance, which requires the updating of the Algerian accounting and financial system and its greater adaptation to the international accounting environment.

Keywords: Accounting and financial system SCF, Regulation 203, International Accounting Reference, Construction contracts, Revenue from contracts with customers.

Introduction

The enterprise is considered as the basic economic unit in the national economy. It interacts with each other and with customers through production and consumption cycles, leading to the existence of multiple material and financial flows, the most important of which are those related to the transfer of goods or services, or the construction or repair of assets, through contracts and transactions. The start date of the contract or transaction and the date of its completion may be in different and successive financial periods, which creates several accounting challenges related to how and when to recognise revenue and costs, what is known as the

concept of accounting for long-term contracts, which is addressed by D.O.L. no. 71 of 26/07/2008, in addition to the opinion of the Accounting Practices Unification Committee and the professional judgement of the National Accounting Council (CNC) issued on 4 January 2017, as a general theoretical framework for the treatment of long-term contracts in Algeria and an attempt to keep pace with international developments in this area. Finally, the issuance by the Accounting Practices and Professional Duties Standardisation Committee of the National Accounting Council of the draft decision No. 203 dated 1 July 2023, to be implemented in 2024, which defines the rules of valuation, accounting, the content of financial statements and their presentation, as well as the chart of accounts and account management rules adapted to the construction, public works and irrigation sectors.
Globally, the general theoretical framework for the treatment of long-term contracts was represented by International Accounting Standard (IAS) 11 'Construction Contracts' and International Accounting Standard (IAS) 18 'Revenue', together with their interpretative standards, which have been superseded and replaced by IFRS 15 'Revenue from Contracts with Customers' as part of the cooperation between the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB), to be implemented from 2018. IFRS 15 is considered more comprehensive than the superseded standards and covers all types of contracts with customers, as it has been adopted as a theoretical and practical framework for contract management and has dropped the concept or term of "long-term contracts" in favour of the concept of revenue recognition over time and the establishment of modern rules for recognition and accounting.
In general, long-term contracts are used in many vital sectors of the state, such as hydrocarbons, construction and land reclamation, irrigation, electrical and mechanical works, dam construction and subcontracting...
Based on the above, we have formulated the main research problem as follows:

Research problem:
What is the legal framework for long-term contracts in the Algerian financial accounting system from the perspective of the international accounting referential and does it comply with IFRS 15?

1. International Accounting Framework for the treatment of long-term contracts or construction contracts

A. Withdrawn accounting standards related to long-term contracts under the international framework

First, International Accounting Standard (IAS) 11, construction contracts.

The objective is to prescribe the accounting treatment for revenue and costs arising from construction contracts. Due to the nature of construction activities, the commencement date and the completion date of the contract often fall in different financial years. This Standard applies to the accounting for construction contracts in which an asset is constructed, such as buildings, bridges, dams, etc. It may also include contracts for services directly related to the asset or for the demolition or restoration of assets. Contract revenue is measured at the fair value of the consideration received or receivable and the measurement of contract revenue is affected by future events that are subject to uncertainty.
The standard proposes two methods for measuring contract revenue: the percentage of completion method and the completed contract method. These standard forms the basis of the Algerian accounting framework for long-term contracts.

Second: International Accounting Standard (IAS 18) "Revenue".

The objective is to prescribe the accounting treatment for all revenue arising from specific types of transactions and events. Revenue under this Standard is the income arising from the ordinary activities of an enterprise and is referred to by various terms such as sales, fees, interest and royalties. Revenue is measured at the fair value of the consideration received or receivable, taking into account any trade discounts or volume rebates granted by the enterprise. If payment is deferred, the fair value is determined based on the present value of the expected cash flows.
For sales of goods, revenue is recognised when the entity has transferred the significant risks and rewards of ownership. For services, the Standard states that the rendering of services usually involves the completion of a contractual task over an agreed period of time, which may be performed in one period or over several consecutive periods. When the outcome of a transaction can be estimated reliably, revenue should be recognised by reference to the stage of completion[1].

Third: The withdrawal of International Accounting Standard (IAS) 11 Construction Contracts and International Accounting Standard (IAS) 18 Revenue and their interpretations.

The IASB has combined the accounting requirements for revenue and construction contracts in International Financial Reporting Standard (IFRS) 15, Revenue from Contracts with Customers, for the following reasons:[2]
- To address the weaknesses and inconsistencies in the revenue recognition requirements in the previous standards (IAS 11 and IAS 18);
- To provide a more robust accounting framework for addressing various revenue issues by establishing five revenue recognition steps;

- Improve the comparability of financial statements between revenue recognition practices in different industries;
- Provide more useful information to users of financial statements by expanding disclosure requirements about the entity's major revenue-generating activities, and streamline and simplify the preparation of financial statements by reducing the number of requirements to which reference is made.

B. International Financial Reporting Standard (IFRS 15) Revenue from Contracts with Customers.

First, Definition of International Financial Reporting Standard (IFRS) 15

IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 and is effective from 1 January 2018. It replaces International Accounting Standard (IAS) 11 'Construction Contracts' and IAS 18 'Revenue' and IFRIC 13 'Customer Loyalty Programmes', IFRS 15 'Agreements for the Construction of Real Estate', IFRIC 18 'Transfers of Assets from Customers' and SIC 31 'Revenue - Barter Transactions involving Advertising Services'.
IFRS 15 is more comprehensive and applies to all contracts with customers, including verbal contracts if they create legal rights and obligations for the parties. It describes the process of transferring goods and services to customers for amounts that reflect the consideration the entity expects to receive in exchange for those goods and services.

Second: Revenue outside the scope of IFRS 15

The Standard does not apply to:

- Leases within the scope of IFRS 16 Leases
- Insurance contracts within the scope of IFRS 17 'Insurance Contracts'.
- Financial instruments, contractual rights and obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.
- Non-cash exchanges between companies in the same industry to facilitate sales to customers.

Third: Objective of IFRS 15

The objective of the Standard is to establish principles for an entity to report useful information to users of its financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers[3].
The Standard recognises two core principles for revenue recognition.
The entity shall recognise revenue in a manner that describes the process of delivering or transferring goods or services to customers at amounts that reflect the consideration or payment the entity expects to receive as a result of that transfer.
In applying this Standard, an enterprise should consider the terms of the contract and all relevant facts and circumstances, applying any practical expedients for contracts with similar characteristics and circumstances. For example, the standard does not apply to a contract between two oil companies that have agreed to exchange oil at a specified time based on the needs of their respective customers in different locations.

Fourth: The main differences between IFRS 15 and IAS 18 and IAS 11 are that:

1. Proposes a new 5-step model for determining the timing and amount of revenue from ordinary activities.
2. The accounting model for revenue from ordinary activities, which previously focused on the transfer of risks and rewards of ownership (IAS 18), is now based on the transfer of control (IFRS 15).
3. IFRS 15 is stricter and more complex than the guidance in IAS 18 and provides application guidance on various issues such as variable consideration, warranties, principal versus agent relationships, repurchase agreements, licences and incremental costs of obtaining a contract.
4. IFRS 15 requires either a stage-by-stage or a point-in-time recognition of revenue from ordinary activities, which may affect the timing of revenue recognition compared to IAS 18 and IAS 11, where entities that currently recognise revenue based on the stage of completion may need to reassess whether recognition should be point-in-time or stage-by-stage.
5. IFRS 15 provides more detailed information about goods and services that were previously bundled.
6. IFRS 15 provides clarification on the timing of capitalisation of costs incurred to obtain and fulfil a contract.
7. IFRS 15 has enhanced disclosure requirements.

Fifth: Presentation and Disclosure

Presentation: Under IFRS 15, the entity shall present:
When either party to a contract has performed, the entity shall present it in the balance sheet as a contract asset or a contract liability;
Any unconditional right to consideration should be presented as a receivable.
Disclosure: IFRS 15 requires an entity to disclose

Sufficient information to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The entity shall disclose qualitative and quantitative information about
Contracts with customers;
Disaggregation of revenue;
Contract balances;
Performance obligations;
The transaction price allocated to the remaining performance obligations;
Significant judgements in applying the standard;
Assets recognised from the cost of obtaining or fulfilling a contract with a customer.

Sixth, the recognition of revenue and costs from long-term contracts under IFRS 15

Recognition of revenue from long-term contracts

Under International Financial Reporting Standard (IFRS) 15, Revenue from Contracts with Customers, the basic principle for recognising revenue is that an entity should recognise revenue from contracts that involve the transfer or delivery of goods or services to customers at an amount that represents the consideration (remuneration) the entity expects to receive in exchange for those goods or services transferred to the customer. In applying this Standard, an enterprise should also take into account the terms of the contract and all relevant facts and circumstances. An enterprise recognises revenue by applying the five-step revenue recognition model as follows:[4]

Step 1, identifying the contract(s) with a customer

An agreement between two or more parties that creates enforceable rights and obligations is considered at this stage of the recognition process. Contracts with customers are considered to be within the scope of this Standard if certain conditions are met, such as the parties agreeing to the terms of the contract, the ability to identify the rights of the parties to the contract and the terms of payment, etc.

Step 2, identify the performance obligations in the contract

The concept of performance obligations is new to the standard. They are the promises in the contract with the customer to provide goods or services or a bundle of goods or services.

Step 3, determining the transaction price

The amount of monetary consideration the entity expects to receive in exchange for transferring the promised goods and services to the customer (fixed or variable amounts or both), excluding amounts collected on behalf of third parties.

Step 4, allocating the transaction price to the performance obligations

The entity allocates the transaction price to the items of performance obligations to be delivered to the customer based on the relative standalone selling price at inception of the contract for each distinct good or service, which represents the amount for each performance obligation specified in the contract, and allocates the transaction price in proportion to the standalone selling prices of that revenue.

Stage 5, Revenue recognition - when the entity satisfies its performance obligations

The entity recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (an asset) to the customer. The asset is transferred when the customer obtains control of the asset.
Accounting for long-term contract costs under IFRS 15
The accounting for long-term contract costs is based on the treatment of the incremental costs of obtaining a contract and the costs of fulfilling a contract.

Types of long-term contract costs under IFRS 15

First, Incremental contract costs

These are costs incurred by the entity to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.[5]

Second: Contract completion costs

Contract completion costs are capitalised when all of the following conditions are met
- The costs are directly attributable to the contract or to an expected contract that the entity can specifically identify;
- The costs generate or enhance resources of the entity that will be used to satisfy or continue to satisfy the performance obligations;
- The costs are expected to be recovered.

The direct costs of the contract with the customer include
- Direct labour (employee salaries and wages);

- Direct materials (such as supplies used to provide the contracted services to the customer);
- Cost allocations directly related to the contract or contract activities (contract administration costs).

Costs explicitly charged to the customer under the contract;
Costs incurred solely as a result of the entity entering into the contract.

Seventh, accounting for long-term contracts under IFRS 15

Recognition is subject to the five-step model and is based on the percentage of completion in measuring the progress of work using the progress method, while the completed contract method is no longer an optional method under IFRS 15, but has become an exception method to be applied.
Revenue is measured by calculating the percentage of completion in measuring the stage of completion using two methods: the input method and the output method.

A. Recognition using the percentage of completion method (progress method)

This method, which dates back to 1955, is the most widely used method and, according to a report published by the Accounting Procedures Committee of the American Institute of Certified Public Accountants, is considered to be the most appropriate method for long-term contracts.

First: The input method

Revenue is recognised based on the entity's efforts or inputs to fulfil the performance obligations (resources consumed or machine hours used...) in proportion to the total expected inputs to fulfil that obligation.

Percentage of Completion =	**Accumulated Actual Costs until the End of the Period - Costs Paid for Future Activities**
	Accumulated Actual Costs until the End of the Period + Total Expected Costs until the End of the Project

Second: Output-based measurement approach

The direct measurement of the value of goods or services delivered to the customer in relation to the remaining goods or services promised under the contract includes certain output-based methods such as surveys of work performed to date, evaluation of results achieved, milestones reached, time elapsed, and units produced or delivered.
The formula for: the percentage of completion

Completion Ratio=	**Actual Units Completed from the Contract (Units, Distance, Floors, ...)**
	Total Agreed-upon Units (Total ... Units, Distance, Floors, ...)

Calculate the recognised revenue for the period:

After calculating the Completion Ratio using either the input-based or output-based method, we can calculate the Recognised Revenue for the period and determine the Annual Result and the Contract Result.

the recognised sales for the period= [the total sales of the last estimate x the progress percentage] - The total sales for the previous years up to this period

Calculate the annual result:

Annual result =Actual costs incurred during the same period - Revenue recognised for the period

B. Inclusion using the contract completion method

This method is not considered to be an endorsed method under IFRS 15. It is applied exceptionally in certain circumstances where it is based on the recognition of revenue that is expected to be collected and that is equal to the recognised expenses only, without profit margin. This method allows the profit associated with the contract to be recognised only at the end of the project, i.e. at the end of the contract.
Its advantages are that it shows the volume of the entity's business in relation to the costs incurred and reduces the risks associated with the future outcome of the contract by conservatively recognising the result in the first years of implementation. However, the reservation at the level of the accounting recording of the construction contract is flawed because it does not clarify the actual and real economic reality of the completed parts of the project at the end of each period and because it does not take into account tax considerations and the inability to dispose of the profits realised during the implementation periods.[6]

2. Accounting treatment of long-term contracts in Algeria

The Algerian financial accounting system, published in Official Gazette No. 19 of 25 March 2009, applicable in 2010, and Decision No. 203 of 1 July 2023, applicable in 2024, provides for the following methods of accounting: the progress method or the percentage-of-completion method and the full contract method:

A. The percentage of completion method

This method is used when the organisation can reliably estimate the contract, when it records all costs and outputs on an annual basis, which allows an annual result to be determined. It provides very useful information about the progress of the work and allows the organisation to control its stage of completion and legal status.

Estimating the result using the percentage of completion method

This method is based on the recognition of revenue and contract outcomes as the production process is completed:
- The ability to estimate reliably the total amount of profits and contract revenue;
- The ability to estimate the total amount of costs to complete the contract, based on normal conditions, risks and potential changes in the prices of production factors for each activity expected to be completed in the future;
- The existence of a management control system and internal control tools to estimate the completion rates in the successive stages of the project.

Method of calculation

The method aims to determine the annual result that the organisation will recognise and to know the turnover for the period, starting from the determination of the completion rate or progress as the main variable in the method. The percentage of completion is calculated as follows:

Input method:

$$\textbf{Completion rate} = \frac{\textbf{Actual cumulative costs at the end of the period}}{\textbf{Expected total costs at the end of the project}}$$

Calculation of recognised revenue for the period:

Recognised revenue for the period=	**Expected Contract Price at the End of the Year x Percentage Completed] - Sum of sales for previous years up to this period**

Calculation of the profit for the year:

Annual result=	**Revenue recognised for the period - Actual costs incurred for the same period**

Note: If the expected outcome can be estimated reliably and is negative, a provision for contract losses should be recognised for the current financial year. If the outcome is positive, revenue and expenses should be estimated according to the stage of completion of the contract.

B. The completed contract method (La méthode a l'achevement)

This method is used when the entity is unable to estimate reliably the outcome of the contract or when its information system and the nature of the contract do not permit the application of the percentage of completion method. Under this method, revenue is recognised in the amount of the annual costs expected to be incurred to complete the project.

One of the main criticisms of this method is that it does not reflect the true annual result and therefore does not allow a proper assessment of the organisation's performance on an annual basis.

Estimating results based on completion

This method does not allow the result to be calculated at the end of the financial year, as the accounting result of long-term contracts is only taken into account when the project is finally handed over to the customer.

Calculation method

The profit associated with the contract is not recognised until the project is completed. The advantage of this method is that it shows the volume of work in relation to the costs incurred and reduces the risks associated with the future outcome of the contract by withholding the recognition of profit in the early years of performance. A disadvantage is that it does not clarify the economic reality of the project components at the end of each period, it is not suitable for tax purposes and it does not allow the disposal of profits made during the execution periods.

C. Project Regulation No. 203 issued on 07/01/2023 and applicable from 2024:

was prepared by the Standardisation Committee of Accounting Practices and Professional Duties of the Algerian National Accounting Council. It defines the valuation and accounting rules, the content of the financial statements and their presentation, as well as the chart of accounts and the rules for the operation of the accounts adapted to the construction and public works sector and the irrigation sector. The main points are:

- The regulation defines the sector concerned by its activities and the scope of application of the Algerian accounting system, but the legislator did not explicitly mention the components of revenue from long-term contracts or the term "revenue".
- In the part devoted to valuation (articles 1.111 to 6.111 of the Algerian accounting system), it added some clarifications and rules relating to the sector, the treatment of losses, construction and development costs and the removal of equipment, among others, while mentioning the term "long-term contracts".
- It added details on the valuation rules and their accounting (sections 1.121 to 4.139 of the Algerian accounting system), clarifying some special cases such as those related to the agricultural sector.
- Incorporated some opinions of the Algerian National Accounting Council related to the private sector (such as quarries and wells).
- It added clarifications on the financial statements, the annexes and their contents.
- It added some accounts to the chart of accounts, such as account 24 for fixed assets under financial leasing.
- Added sub-accounts to facilitate and standardise the accounting process.
- Proposed a statement of comprehensive income for the first time.

3. Comparison of the Algerian Accounting System with the International Financial Reporting Standard IFRS 15 "Revenue from Contracts with Customers".

The Algerian Accounting Regulation No. 203 aimed at aligning with international accounting practices by adopting the International Financial Reporting Standard IFRS 15. However, it is clear that there are similarities as well as differences and divergences, the most important of which we will mention:

Comparison in terms of objective:

There is a partial alignment because the objective of the Algerian accounting system concerns the accounting system as a whole. It aims to establish the rules for the valuation and accounting of assets, liabilities, expenses and products, as well as the content and presentation of the financial statements and the chart of accounts and its operating rules. IFRS 15, on the other hand, is part of a whole, as it is an accounting standard within a set of standards, accompanied by a conceptual framework, that together form the international accounting reference.

The objective of this Standard is to establish the principles that an entity should apply in order to provide users of its financial statements with useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Comparison of the definition of long-term contracts

There is a difference in concepts, but a convergence in substance, as the Algerian accounting system did not define the contract, leaving it to the legal system in the Civil Code, the Commercial Code and the Public Procurement Code. However, it provided a clear definition of long-term contracts in Article 133-1 and in the opinion of the Accounting Practices Harmonisation Committee and the professional judgement of the National Accounting Council. As for IFRS 15, it defined the contract with a more legal than accounting approach, including implicit obligations and any other means commonly accepted in practice within the agreement that creates rights and obligations. In contrast, IFRS 15 did not provide a definition of long-term contracts, but considered them as part of contracts that are generally recognised as revenue over time.

Comparison of contractual terms

There is some alignment between the Algerian accounting system and IFRS 15 in the definition of contract terms. For example, IFRS 15's requirement for the agreement and commitment of the parties to the contract is equivalent to contract negotiation in the Algerian accounting system. Both the Algerian accounting system and IFRS 15 have established rules and conditions for the recognition of contracts, despite the difference in the method of analysis. This is because IFRS 15 looks at revenue from contracts in general, even if they are implicit, in order to extract ordinary revenue and revenue over time, while the Algerian accounting system looks directly at long-term contracts in the activities identified in the Algerian accounting system.

Comparison in respect of combining, splitting and modifying contracts

There is a partial alignment between the Algerian accounting system and IFRS 15 in the estimation of contract combination, division and modification, and under almost the same conditions.With regard to the

Algerian accounting system, contract combination, division and modification is not considered as a stage of analysis, but rather as one of the conditions included in the opinion of the Accounting Practices Harmonisation Committee of the Algerian National Accounting Council.As for IFRS 15, it is considered within the first (01) stage of analysis.

Comparison regarding the estimation of expected variable amounts in the contract price

There is full convergence between the Algerian accounting system (SCF) and IFRS 15 in terms of estimating the expected variable amounts in the contract price. However, IFRS 15 presents a more precise approach based on a systematic estimation of the variable factors in the contract price using the expected value or most likely amount method and then including the most likely result obtained. Consequently, if the contract includes a price review clause and/or a performance bonus, these should be included in the contract price from the outset.

Comparison of the definition of revenue and the conditions for revenue recognition

There is partial alignment between the Algerian accounting system (SCF) and IFRS 15 in the general conditions for revenue. The entity recognises revenue when it is probable that future economic benefits associated with the transaction will flow to or from the entity and the transaction has a cost or value that can be measured reliably.

On the one hand, there is a difference in the expression of the basic principle of revenue recognition. Under the Algerian accounting system (SCF), revenue is recognised when the risks and rewards of ownership have been transferred to the buyer in the case of long-term contracts and at the stage of completion at the balance sheet date in the case of services.In contrast, IFRS 15 introduces new concepts whereby revenue is recognised when control over the goods and services has been transferred and the performance obligations have been fulfilled.

On the other hand, expenses and income related to the transaction carried out under long-term contracts are automatically recognised in the Algerian accounting system (SCF) according to the progress of the transaction. However, in the case of IFRS 15, in order for expenses and income to be recognised according to the progress of the transaction, at least one of the three conditions mentioned above must be met.

Comparison of revenue recognition

There is partial alignment between the Algerian accounting system and IFRS 15 in terms of revenue recognition, which is based on the contract price. There is also alignment in the methods of revenue measurement (progress method and completion method), despite the different concepts between revenue from long-term contracts and revenue from contracts over time.

The Algerian accounting system and IFRS 15 differ in the methods of measuring progress; while the Algerian accounting system specifies one method for the progress method and one method for the completion method, IFRS 15 allows several measurement methods, which opens the door to research on these different methods. In addition, some of the methods previously used, which resulted in work in progress at the end of the financial year, are no longer acceptable under IFRS 15, as work in progress is no longer acceptable due to the gradual transfer of control (performance obligation over time) applied in IFRS 15.

The completed contract method is an optional method in the Algerian accounting system when the manager considers that the outcome cannot be estimated reliably, while in IFRS 15 it is applied only in exceptional cases and for a limited period.

Comparison of cost recognition

There is partial convergence between the Algerian accounting system and IFRS 15 in terms of the recognition of costs, whether direct or indirect, as both focus on costs that are chargeable to the contract and expected to be recovered. Costs not attributable to the contract include:

* Depreciation of equipment not related to the execution of the contract;
* Costs of raw materials in the workshop at the year end that have not yet been used in the execution process;
* Overheads not directly related to the contract;
* Advance payments to subcontractors.

Regarding the costs of obtaining a contract, the Algerian accounting system did not clarify how to include them and they can be considered as part of the costs related to the contract. As for IFRS 15, one of the additions introduced by this standard is the concept of “incremental costs of obtaining a contract”, which are the costs incurred by the entity to obtain a contract with a customer that the entity would not have incurred if the contract had not been obtained.

Comparison regarding the recognition of the result and revenue

As far as the result is concerned, there is a partial agreement between the Algerian accounting system (SCF) and IFRS 15, as both deal with costs and revenues according to the stage of completion, whether using the input method or the output method. However, the difference lies in the calculation of the percentage of completion. While the SCF allows the recognition of profit over the contract period based on the calculation of the percentage of completion, IFRS 15 is based on a five-step revenue recognition model.In terms of revenue, IFRS 15 is considered to be different from the Algerian accounting system as it is subject to the five-step model. However, they are largely aligned as they both rely on the percentage of completion method to measure the progress of work. While the percentage of completion method was optional under the SCF, it has become an exception under IFRS 15. Revenue is measured by calculating the percentage of completion using two methods: the input method and the output method.IFRS 15 provides a more realistic approach by calculating revenue in proportion to the stage of completion and the actual costs incurred during the period. Even if the cost-to-cost method is used and expenses and a profit are recognised, they must be offset against the costs actually incurred. Therefore, IFRS 15 does not deal with the outcome of the contract, but deals with costs and revenue by deducting the revenue for the period from the estimated costs for the period.

Comparison regarding the recognition of impairment losses

There is partial convergence between the Algerian accounting system (SCF) and IFRS 15 with respect to the recognition and reversal of impairment losses, which is almost the same analysis used to determine and settle the losses.

Conclusion

The international reference has taken a significant step forward with the adoption of a new standard dedicated to the study of revenue from contracts with customers. International Financial Reporting Standard (IFRS) 15 “Revenue from Contracts with Customers” is considered one of the most recent standards and its implementation began on 01.01.2018 after the withdrawal of IAS 11 and IAS 18. It addresses all the shortcomings that arose during the application of the previous two standards and is considered more advanced than them. It applies to all contracts with customers and deals with contracts through a methodical five-step plan that allows the study of all contracts, including legal considerations in the recognition and measurement of contracts.

Algeria’s objective in adopting international accounting standards on long-term contracts, represented by IAS 11 and IAS 18 and their interpretations, was to keep pace with developed countries in terms of accounting treatment. Algeria has sought to adapt its Financial Accounting System (FAS) to these standards in order to bring greater transparency and credibility to its accounting and financial transactions, with the aim of gaining the confidence of investing countries and attracting foreign investment to this sector, which is considered to be one of the most effective sectors for the development of the State.

The Financial Accounting System (FAS) and IFRS 15 ‘Revenue from Contracts with Customers’ both derive from IAS 11 and IAS 18 and their interpretations, but they differ in terms of the place, time and reference that each represents. However, IFRS 15 is more modern and advanced in terms of form and content compared to what was stated in the Algerian accounting system regarding the treatment of long-term contracts.Despite the attempt to address the shortcomings through Decree no. 203 of 01/07/2023, applicable in 2024, issued by the Commission for the Standardisation of Accounting Practices and Professional Obligations of the Algerian National Accounting Council, which establishes the rules for valuation and accounting, the content of financial statements and their presentation, as well as the chart of accounts and the rules for the operation of accounts adapted to the construction, public works and irrigation sectors, It has become clear that the difficulty in comparing the Algerian accounting system (SCF) with the IFRS 15 standard is due to the difference between the internal environment of the SCF, which comes from a French-speaking environment based on an accounting plan, laws and regulatory decrees, and the environment of the countries that have adopted international accounting standards, which is Anglo-Saxon and based on a conceptual framework and guidelines. This has led to some differences in the accounting treatments prescribed by the SCF compared to those prescribed by international standards in the accounting for long-term contracts, which have some differences with the provisions of IFRS 15. These differences can be attributed to the novelty of this standard or to the different internal environments of each system, the most important of which is the recognition of revenue and costs from long-term contracts, which IFRS 15 divides into five stages, whereas the SCF project does not mention this.

Main findings:

1. The Algerian accounting system (SCF) is based on the international accounting framework, as its main objective is to achieve conformity with the international reference.
2. Regarding the treatment of long-term contracts, the Algerian accounting system has tried to keep pace with international developments through Decree No. 203, which will affect the quality of accounting information.
3. The Algerian accounting system is somewhat aligned with International Financial Reporting Standard (IFRS) 15 as regards the accounting treatment of long-term contracts.
4. International Financial Reporting Standard (IFRS) 15 helps to increase the confidence and reliability of the revenue recognised in the financial statements.
5. Decree No. 203 introduced the following new elements
 - A more detailed chart of accounts, with the availability of accounts to handle long-term contracts.
 - Financial statements with new disclosure elements, in line with the changes introduced by the International Accounting Framework after 29 March 2018.

- A greater focus on cash flows.
6. The financial statements still need to be updated to comply with International Accounting Standard (IAS) 1 “Presentation of Financial Statements” and to include important elements and parts in the accounting disclosure, such as the statement of other comprehensive income (not included in the SCF) and the breakdown of financial expenses and income to reflect the financial cost elements, in order to align the SCF income statement with the income statement of the standard.

Study Outlook

Through this study, we have addressed the issue of Decree No. 203 and the extent of its alignment with International Financial Reporting Standard (IFRS) 15, both from a legislative and content perspective. We have also tried to shed light on the modernisation of the Algerian accounting system.
In this context, we have not dealt with the tax and fiscal aspects of the accounting treatment of these contracts, which could be the subject of further studies and research, given the novelty of the subject in Algeria.

Footnotes :

1. Samir Ben Berrah and Hadiya Ben Mahdi, “The Theoretical Reality of Long-Term (Construction) Contracts in the Algerian Accounting System from the Perspective of the International Accounting Reference”, paper presented at the International Colloquium on the Reality of Sectoral Accounting in Algeria between the International Financial Reporting Standards (IAS/IFRS) and the Algerian Accounting System (SCF), Faculty of Economics and Management Sciences, University of Batna 1, Algeria, 18-19 October 2002, p. 6.
2. Mohamed Abu Nasser and Jumaa Houmaidat, International Accounting and Financial Reporting Standards - Theoretical and Scientific Aspects, 3rd edition (Amman, Jordan: Wael Publishing House, 2024), 702.
3. Bilal Kimouch, International Financial Reporting Standards, Part One, 1st edition (Algeria: Algerian House of Books), 769-770.
4. https://www.ifrs.org/issued-standards/list-of-standards/ifrs-15-revenue-from-contracts-with-customers/page consultée le 20/04/2024 à 15h43
5. Ibid.
6. Mémento Expert, IFRS 2022 (France: Francis Lefebvre editions, 2021), 527-528.