

Income Measurement and Recognition in the Algerian Financial Accounting System (SCF): Opportunities and Challenges

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Summary: This study aims to examine the nature, measurement, and disclosure of income within accounting thought and accounting references, particularly international ones, to understand the reasons for its diversity and the foundations upon which it is based. It also studies and analyzes the challenges and problems of income measurement and disclosure within the Algerian financial accounting system (SCF) by examining accounting thought and accounting references, especially international ones.

To address the problem of the study, the appropriate descriptive approach was adopted through the analysis of accounting references and literature, in addition to the analysis of various legal and regulatory texts related to the financial accounting system (SCF), using the international accounting reference and accounting theory.

The study concluded with several results, including: The diversity of economic and accounting income concepts has enriched accounting thought with numerous accounting alternatives and helped crystallize the concept of capital preservation as the constraint through which income is calculated. It is noted in the Algerian financial accounting system the complete absence of the concept of capital maintenance, the basic determinant of methods for measuring assets and profit, contrary to what is found in the Anglo-Saxon accounting references. The study made it possible to examine some of the imbalances that exist at the level of the Algerian financial accounting system, which sometimes reach the point of contradiction between its components, which requires speedy treatment and control in order to create a kind of harmony between its legal texts.

Keywords: Accounting income; Income measurement; Conceptual framework V.18; IFRS 15; SCF; IASB.

Jel Classification Codes: M41.

I- Introduction :

Net income and its measurement represent one of the objectives of financial accounting and part of its definition. For example, the Algerian accounting reference defines it as: “*a system for organizing financial information that allows the storage, classification, evaluation and recording of basic numerical data, and the display of statements that reflect an honest picture of the financial position, property of the entity, and its effectiveness, and the position of its treasury at the end of the fiscal year*” (Article 2 of Law 07-11, 2007, p.3). The effectiveness of an entity is measured by its net income when compared in place with competing entities and in time by comparing their time periods, so that the users of the financial statements become clear about the entity’s performance and efficiency, so that decisions can then be made according to their situation. Hence, the importance of income is highlighted as one of the basic objectives for which the outcomes of the accounting process are aimed. A FASB 2008 discussion paper stated: “*Revenue is a material component of an entity’s financial statements. Grantors of funds use an entity’s revenues to analyze its financial position and performance to make their decisions. Revenues are also important to financial statement preparers, auditors, and regulatory bodies.*” (FASB, 2008, in: Schothuis, 2010, p.07)

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However, challenges and problems arise in measuring and recognizing income in a way that provides appropriate and credible information that reflects the reality of the institution's economic activity and its actual performance in light of the multiplicity of measurement alternatives available in accounting references and thought. Therefore, this paper presents and addresses problems affecting this central concept in financial accounting, which are: First: Why are there a multiplicity in the nature of income and a multiplicity of methods for measuring it in accounting references and thought? Then secondly: Is this considered a beneficial enrichment for the quality of accounting information? Then finally: What is the reality of the Algerian accounting reference's treatment of profit (net income) and its measurement?

II- Literature review of the concept of income:

Income is considered the flow generated from capital investment, and the value of physical capital is determined and calculated according to investment theory through future flows of income generated from it according to Fisher. The latter expresses the relationship between capital and income in that *"The stock of wealth at a given moment represents capital, while the flow of benefits resulting from this wealth over a period of time represents income."* (in: Helwa Hanan, 2003, p.28).

Neither accountant nor economist can talk about income without the concepts of preserving capital, as preserving capital means protecting the invested capital from distributing fictitious income, and then it means determining Income and its measurement. In this regard, the conceptual framework of the International Accounting Standards IAS/IFRS indicates that the value of income is directly linked to the concept of capital and its maintenance used by the company to prepare its financial statements, and a direct relationship between the concept of capital, the chosen measurement convention and income is clearly stated. (Pierrot, 2006, p.14)

Economic theory influences accounting theory on many issues, including income. It is worth noting that there is a difference in the interpretation of income between accountants and economists in their own circles, which makes them not agree on a unified concept of it. On the economic side, (Fisher, 1906, p.101) points out the state of confusion in the subject of determining income through the failure of writers to define it due to their belief in the difficulty of the task or its clarity, which does not require definition. On the accounting side, (Gress, 1970, pp.66-67) that there is no significant agreement or consensus on the concept of accountants as well as a unified definition of income, despite the large literature on it and its components.

II.1.Accounting income:

Accountants define accounting income as the difference between the revenues (outputs) achieved and the burdens incurred during a certain period of time (accounting cycle) in accordance with generally accepted accounting principles (Gress, 1970, p. 67). These principles - among which there are obligatory conditions upon which the calculation of traditional accounting income is based - are: The principle of revenue realization, the imposition of periodicity, the historical cost agreement, and the principle of matching revenues with burdens. (Helwa Hanan, 2003, p. 37) This definition represents the direct method by which the accounting result or income is calculated, by revealing the result account by subtracting the burdens from the outcomes (revenues) for a specific accounting cycle, usually the calendar year. As an example of this method, Morton Backer defined income as: *"From an accounting point of view, income is generally considered to be the remaining balance of expenses incurred for revenues earned."* (in: Gress, 1970, p. 68)

Income can be measured through the budget statement by calculating the difference between private funds at the end of the accounting cycle and the beginning. This is essentially the result of integration between the income and budget statements due to the principle of double entry. This method is called the budget method for determining and calculating income, and it is preferred by accountants for previous periods, so that the direct method takes on its importance and preference by accountants at the present time, (Ronald, 1949, pp.23-24) as it is the most common in Accounting practice, as the matter was linked to the development of the institution and accounting, professionally and theoretically, and because of the greater disclosure it provides about how income is formed and its details and the possibility of calculating intermediate balances that have financial significance that is important for decision-making.

The accounting definition of income assumes that accountants agree on a definition of revenue and its measurement and on what should be included in the cycle's revenues on the one hand, and on a definition of the burdens and their measurement and on what should be considered as the cycle's burdens, despite the existence of unified rules. It is well defined and used by accountants to determine income according to "generally accepted accounting principles", but this is not the case in accounting (Gress, 1970, p.69).

II.2. Economic income:

The concept of economic income finds its importance in current value accounting as an alternative to the traditional accounting measurement based on historical cost. It has been proven since the beginning of the last century that the value of capital is derived from the value of the income generated and flowing from it, according to the work of economist Fisher, 1906. There has been a consensus among economists on the definition of income by economist Hicks, and it has also been widely referred to in the accounting literature (Gress, 1970, p.69). Therefore, the economic income adopted in accounting, which met with great consensus among economists he entered Hicks.

Before defining income, Hicks begins by presenting the reason and importance of defining it, as he considers it as an indicator used by individuals to control their consumption behavior to the extent that it is not possible to impoverish them. He says: "*The purpose of income calculations in practical matters is to give people an indication of the amount that they can consume without impoverishing themselves.*" (Gress, 1970, p.69). It is clear from the reason presented by him that it provides a guide to the rational behavior of individuals, and this is more evident through his definition of per capita income, where he says: "*It is the maximum amount that an individual can consume over a period of time and is still expected to be in as good a position at the end of the period as he was at its beginning.*" (Gress, 1970, p.69).

(Solomons, 1961) points out the possibility of reformulating the Hicks definition of income for an individual, for the purpose of adapting it and applying it to the economic institution, so that the definition of its income becomes as follows: "*The maximum amount that can be distributed to shareholders in a given period, leaving the capital value of the expected returns of the enterprise as they were at the beginning of the period.*" (in: Bromwich, Macve, and Sunder, 2010, p.4). Accordingly, the income of the economic enterprise according to this definition is the amount by which the capital value has increased Expected returns over a period of time taking into account new payments from capital investments and withdrawals thereon by owners.

The balance sheet approach in determining and calculating traditional accounting income is consistent with the Hicks definition of income adapted to the organization's income, as it represents the change in the net asset value during the accounting cycle (between the first and last cycle). (Gress, 1970, p.70). There is a fundamental difference in measurement between the accounting and economic concepts, which is based on the fact of capitalizing expected future returns when measuring capital value in the economy, while the value of owners' rights is measured on the basis of costs in accounting. (Gress, 1970, p.70) The economic approach to income based on the work of Hicks lacks the objectivity of its measurement, as it did not pay attention to the requirements of evidence and proof facing the accountant (Gress, 1970, p.73).

The importance of "Hicksian" economic income is evident in that it represents one of the theoretical foundations of contemporary accounting, and that it was used in professional circles by the IASB (Rambaud, 2015, p.277), and various Anglo-Saxon accounting references similar to the FASB (Bromwich, Macve, and Sunder, 2010, p.4). It is worth noting that the first economist to define income was "Adam Smith" as: "*The amount that can be consumed without encroaching on capital, including fixed and circulating capital*" (in: Zuaiteer, 1974, p.52). Hicks's work related to the definition of income finds its roots in the works and references of "Adam Smith", as "Hicks", with a neoclassical orientation, presented it in a practical form by highlighting how to calculate it by introducing mathematical models.

III- Revenue in the international accounting reference :

III.1. Concept of revenue in IFRS/IAS: Transition from IAS 18 to IFRS 15:

Revenue is recognized according to IAS 18, when the risks are transferred to the buyer and the possibility of enjoying future benefits on his part. Then the IFRS 15 standard "Revenue from Contracts with customers" became recognized according to control over the commodity, so that transferring the risk and benefiting from it is only one of the indicators indicating control. In this aspect of the study, we are trying to shed light on the shift in creating a new, comprehensive standard for revenue recognition by abandoning IAS18 on revenue and creating and adopting IFRS 15 "Revenue from Contracts with Customers," as an effort to bring the international and American accounting authorities closer together.

1. Revenue in IAS 18:

1.1. Type of revenue involved under IAS 18:

Revenue (IAS 18.1-6) is applied to account for revenue arising from the following transactions and events: a) sale of goods; b) Providing services; and c) the use by others of the corporation's assets in exchange for interest, rent, and dividends.

1.2. Timing of revenue recognition:

Revenues from the sale of goods are recognized when all of the following conditions are met: a) The enterprise has transferred the significant risks and rewards of the goods to the customer; b) The Corporation does not retain any involvement in, or control over, the ongoing management of the goods sold. C) The ability to measure the amount of revenue generated from the sale reliably. D) The probability that the economic benefits associated with the sale will flow to the organization. e) The ability to measure reliably the costs incurred or to be incurred in connection with the sales process.

1.3. Effect of the time value of money on revenue:

In most cases, the consideration is in the form of cash or its equivalent and the value of revenue is the amount of cash or equivalent received or receivable. However, when cash flows or cash equivalents are deferred, the fair value of the consideration may be less than the notional amount of cash received or receivable.

2. Revenue in IFRS 15:

2.1. Type of revenue involved:

This standard applies to all contracts concluded with customers (IFRS 15.5), except for those that are treated by a special accounting standard, such as leases within the scope of IAS 17 Leases; Insurance contracts are within the scope of IFRS 4 Insurance Contracts. The basic principle of IFRS 15 is that an enterprise recognizes revenue to represent the transfer of promised goods or services to customers at an amount that reflects the consideration to which the enterprise expects to be entitled in exchange for those goods or services. The organization recognizes revenues in accordance with this basic principle through a unified model for accounting registration of turnover (sales), regardless of the sector of activity, which consists of five steps, which are:

- **Determine contracts concluded with customers;**

A contract represents an agreement between two or more parties that creates enforceable rights and obligations. The requirements of the standard apply to every contract agreed with a customer that meets specific criteria. In some cases, the standard requires an organization to consolidate contracts and account for them as a single contract. The standard also provides accounting requirements for contract modifications.

- **Determine service performance obligations for contracts;**

The contract includes promises to transfer goods or services to the customer. If those goods or services are distinct, the promises are performance obligations and are accounted for separately. A good or service is separate if the customer can benefit from the good or service alone or with other resources readily available to the customer and the organization's promise to transfer the good or service to the customer is identifiable separately from other promises in the contract.

- **Determining exchange (sale) prices:**

The exchange (deal) price is the amount of consideration in the contract to which the organization expects to be entitled in exchange for transferring the promised goods or services to

the customer. The exchange price (transaction) can be a fixed amount of the customer's consideration, but it may sometimes include a variable consideration or consideration in a form other than cash. The exchange price is also adjusted for the effects of the time value of money if the contract includes a significant financing element and for any consideration payable by the customer. If the consideration is variable, the organization estimates the amount of consideration it will be entitled to receive in exchange for the promised goods or services.

- **Distribution of prices between the various performance obligations of the contract:**

An organization will typically allocate the transaction price for each performance obligation on the basis of the relative independent selling prices of each separate good or service promised in the contract. If the standalone selling price is unobservable, the institution estimates it. Sometimes the transaction price includes a discount or a variable amount of consideration that relates entirely to part of the contract. The requirements specify when an organization allocates the discount or variable consideration to one or more, but not all, of the performance obligations (or separate goods or services) in the contract.

- **Accounting recognition of revenue:**

An organization recognizes revenue when (or when) it satisfies a performance obligation by transferring the committed good or service to the customer (that is, when the customer obtains control of that good or service). The amount of revenue recognized is the amount allocated to the satisfied performance obligation. A performance obligation may be fulfilled at a point in time (usually for promises to transfer goods to a customer) or over time (usually for promises to transfer services to a customer). As for performance obligations that are fulfilled over time, the organization recognizes revenue over time by choosing an appropriate method to measure the organization's progress toward fully meeting the performance obligation.

2.2. Timing of revenue recognition:

The organization recognizes revenue by applying the five steps mentioned above. Under step 1, one of the criteria to be met is that both parties to the contract have agreed to the contract (in writing, orally or in accordance with other generally accepted business practices) and are committed to performing their obligations (IFRS 15.9). Although the standard also notes that revenue may still be recognized to the extent of the consideration received even if the criteria referred to under paragraph 9 are not met. These conditions are when: (i) any remaining obligation is not performed or the contract is terminated; and (ii) the consideration received is non-refundable (IFRS 15.15).

Analysis of the change brought about by this standard regarding the timing of revenue recognition compared to the previous standard:

Under IAS 18, the timing of revenue recognition from the sale of goods depends primarily on the transfer of risks and benefits. Instead, IFRS 15 focuses on the timing of transfer of control of those goods to the customer. This different approach may change the timing of revenue recognition for some organizations.

2.3. Effect of the time value of money on revenue:

When determining the transaction price, the enterprise must adjust the amount of consideration promised for the effects of the time value of money if the timing of payments agreed upon by the parties to the contract (either explicitly or implicitly) provides the customer or enterprise with a significant benefit to finance the transportation of the goods or services to the customer. Regardless of whether a significant financing element is expressly included in the contract or implied in the payment terms agreed between the parties to the contract (IFRS 15.60).

Analysis of the change in the impact of the time value of money on revenue between the two standards:

IFRS 15 introduces new and more comprehensive financing arrangements and the impact of the time value of money. Under the new standard, the financing component, if significant, is accounted for separately from revenue. This applies to advance and late payments, but subject to the exception where the period between payment and transfer of goods or services is less than one year. This new guidance may change current accounting practices in some cases.

III.2. Study and analysis of the concept of revenue in IFRS/IAS:

The International Accounting Standards Board defines output (income) as “an increase in economic profits during the accounting period resulting from an increase in assets or a decrease in debts (liabilities), which leads to an increase in private funds (equity) other than those resulting about owners' contributions”. This definition is consistent with the definition of assets (and liabilities), as it confirms that any increase in the current value of assets can be considered prior output (revenue), if it will increase the value of property rights.

The following consequences emerge from this definition:

- Its reference is capitalist and its background is microeconomic: net income is conceptualized from the point of view of “investors” who provide “risk capital”;
- This result may not be achieved (abandoning the principle of revenue recognition): Revenue is not recognized according to this principle, except in the presence of an actual sale (exchange) transaction. On the contrary, the definition proposed by the IASB allows any possible éventuel (unrealized) increase in assets to be considered as revenue, provided that it is probable: thus recording potential gains.
- This result takes into account inherent (potential) gains and losses (abandoning the “traditional” prudence principle);
- This result does not distinguish between normal and abnormal activities.

IFRS 15 provides important and significant guidance, but it has a discretionary nature linked to the important space left for arbitration (Herriau, Lenormand, and Touchais, 2022, p.7), which makes it the subject of criticism for moving away from objectivity, the task of preparing financial statements, in order to gain general acceptance by users, and before that by accounting practitioners, considering that these lists are the subject of scrutiny, and then the possibility of difference in estimation, especially when the evidence is not available and clear.

This is mainly due to the application of a principles-based, guiding and detailed approach with a five-step model to recognize revenues from contracts concluded with customers, the indicators and evidence of which are not subject to consensus and agreement, which makes them purely a matter of judgment on the part of accountants. Not to mention the electrostatic nature of accounting that characterizes international accounting, this allowed for the existence of a space for arbitration.

However, we find this addressed in IFRS 15 with the presence of multiple instructions and examples intended to limit all practical cases of measuring and recognizing revenue, in an attempt by the international accounting reference to overcome the problem of subjectivity that may affect measurement and recognition. Guidance and examples will reduce variation in sales measurement and recognition among accounting practitioners.

IV- Profit (Net income) in the Algerian financial accounting system (SCF):

In this part of the study, we try to determine the reality of measuring profit in the Algerian accounting system in an analytical and critical context of the various legislative and regulatory texts framing it, relying on various academic studies, and through what is approved in the comparative accounting references, especially the reference International accounting. The components of the financial accounting system are examined based on the legal framework that governs it, in relation to research and analysis of accounting measurement methods. Determining the accounting measurement methods for the elements of the balance sheet and profit will not be correct unless the concepts of capital maintenance are concerned.

IV.1. Analysis and discussion of the concept and measurement of profit (net income) in SCF:

The Algerian financial accounting system (SCF) adopted the accounting income approach and did not adopt the comprehensive income approach with the economic dimension by including gains resulting from changes in the value of assets, except what was related to private assets represented by biological and financial assets. Although he referred to the concept of economic income by applying alternative measurement concepts to historical cost such as current values and fair value, he did not make them basic agreements similar to historical cost. In the event that alternative methods are not reliable and cannot be measured, the system imposes historical cost measurement as a safe haven. Accordingly, the concept of income used and adopted in the financial accounting

system is the classic one, that is, accounting income based on measurement according to historical cost.

Accountants clearly stated that accounting is a process of allocating costs and revenues to different accounting cycles and not a process of valuing assets, as this was stated in a statement (AAA, 1936): "*Accounting is... not primarily a process of evaluation, but of allocating historical costs and revenues to present and subsequent fiscal periods.*" (in: Gress, 1970, p. 46).

Historical cost represents the most objective measurement of the fair value of the asset at the acquisition date. However, it loses its importance as a measure of the fair value of the asset after this date, but it remains objective in that it can be verified through the transaction concluded, and therefore it meets the evidentiary requirements more than alternative measurement methods. The concept of original (historical) cost is violated in current practice when market replacement costs fall, as this decline is recorded on the basis of market prices not supported by an objective, verifiable transaction (Gress, 1970, p.46). The decrease is recorded as a decrease in the value of the asset according to the principle of caution, according to its current values in the market, as the process is evaluative and did not take place based on an actual deal with supporting documents that enable it to be verified by other professionals.

Commitment to historical cost in a period of rising prices would distort balance sheet values badly (Edwards and Bell, 1961, in: O'Brien, 2019, p.131) and the financial statements would lose their importance due to their failure to detect and disclose costs. This results in problems, the most important of which is that depreciation installments and - to some extent - the cost of goods sold are recorded at historical cost and compared with current revenues in the income account, which leads to the inevitable overestimation of profit, and then the waste of capital through the distribution of Imaginary profits, and the resulting neglect of the requirements for continuity in the institution (Gress, 1970, p.47), instead of the capital maintenance, whether physically or financially, it is destroyed, and hence the principle of historical cost as a major determinant measurement convention in Preserving capital and determining profit, through which the accounting model is used and taken into account, in which the concept of preserving targeted capital is known.

Wells (1976) acknowledged that the historical cost system was in crisis, because it was unable to deal with changes in asset prices and changes in the purchasing power of the monetary unit (in: Ryan, 2014, p.07). Therefore, supporters of the joint ownership theory see the necessity of adjusting the effects of the change in the general level of prices due to high inflation, and they demand amending the financial statements prepared on the basis of historical cost, either by using the current value approach (replacement cost) or by using the general price index (adjusted historical cost). (Merino, 1993, in: Matar and Al-Suwaiti, 2008, p.103)

"Chambers" issued his comprehensive accounting system in his book "Accounting, Evaluation and Economic Behavior," published in 1966, as an accounting theory that was distinguished by its comprehensiveness and consistency. He undertook the task of defining the assumptions on which accounting is based, deriving principles from them, and demonstrating the necessary practices. Chambers' position is to use the current exit price to measure all assets in a way that takes into account both private and public price changes (Persson, 2013, p.72). He based this on his claim that the original (historical) cost is not valid after the date of possession, as the decision to keep or sell is made on the basis of the current selling price and the expected future selling price, not on the basis of a historical price (historical cost). However, Chambers claim and position is correct and reasonable when the assets are held for the purpose of sale and the owner is free to sell at any time he wants, but it is inappropriate according to exit prices when the assets are kept for exploitation (as is the case in production) under the going concern concept (Gress, 1970, p.49).

Among the economists who recommended moving away from historical cost, we find Edwards and Bell, who proposed, in addition to traditional accounting statements, to show operating results on the basis of recognition of current costs, and by separating operating income from capital gains, where changes in current amounts resulting from operating activities are classified. The company represents operating income, while holding activities that reflect changes in current amounts are presented as capital gains during periods of price and purchasing power changes. (Edwards & Bell, 1961, in: Hollinger, 1968, p.10). On the professional side, a special committee of the AAA in 1966

recommended that supplemental financial statements be prepared on the basis of current replacement cost data. (Gress, 1970, p.50).

The Algerian accounting legislator addressed the historical cost convention in (Article 16 of Executive Decree N°08-156 containing the conceptual framework, p.12), where it stipulated the following: *“The elements of assets, liabilities, products, and charges shall be recorded in accounting and presented in the financial statements at their historical cost, provided that the basis of their value at the date of inspection, without taking into account the effects of price changes or the development of the purchasing power of the currency. However, private assets and liabilities, such as biological assets or financial instruments, are valued at their fair value. The methods for implementing the provisions of this article are determined by a decision of the Minister in charge of Finance”*.

This clause approves the use of historical cost as a basis for measuring the elements of the balance sheet and calculating income on the date of obtaining it, without taking into account price changes and the purchasing power of money. However, it excludes from this the assets and liabilities of certain sectors such as agriculture and financial instruments that fall within the scope of speculation, in view of the growth of biological assets and the fluctuation in the prices of financial instruments.

The legislator referred the application of this clause to a decision issued by the Minister of Finance, as we find this in (decision of July 26, 2008, p.03) related to accounting standards, where we find in clause one. Article 16 of Executive Decree No. 08-156 mentioned above referred to it. It stipulates the following: *“This decision aims to determine the methods of implementing the provisions of Articles 4, 16, 18 and... of Executive Decree No. 08-156...”*, as we find the application of that in the first appendix to this (the decision in the first chapter of it under The second section on general rules for evaluation, where paragraph 1.112, p. 6) stated the following: *“The method of evaluating the elements recorded in the accounts is based, as a general rule, on the historical costs convention. While it is based on some conditions specified by this regulation and for some elements A review is conducted on that evaluation based on: the fair value (or current cost), the value of achievement, and the current value (or Utility value).”*

This paragraph reinforces that the general rule for evaluation is based on the historical cost convention, despite the possibility of modifying or reevaluating these elements according to available measurement alternatives as mentioned, or it is possible to measure at first glance according to these alternatives, noting that the historical cost initially is considered a fair cost and over time can lose the objectivity of a fair depiction of its valued elements, given changes in the general price level and purchasing power of money.

The Algerian legislator's reliance on historical cost essentially came from his awareness of what accounting thinkers had argued, especially Ijiri (1971, 1976) who was the most important academic defender of it, according to what was approved by (Anderson, 1976, in: O'Doherty, 1978, p.47). And as the accounting authorities followed the approach of the FASB in the USA, which approved maintaining the historical cost approach and leaving the reporting of changes in the price level voluntary and supplementary, which is also followed by other professional bodies. (O'Brien, 1999, p.155) This is due to the general acceptance that historical cost has received, especially for its objectivity, reliability, and verifiability because it is the product of actual exchanges, on the one hand, and the Algerian legislator has allowed the application of other measurement alternatives to it, which fall within the context of current values, on the one hand others, which are:

- The real value (or current cost), which is known in accounting thought as the current replacement cost (entry values), which is supported by both Edwards and Bell, 1961.
- The achievement value, which is known in accounting thought as the current market value (exit values), which Chambers, 1966 supports.
- The present value (or utility value), which is known as the present value of future flows, which finds its background in economic theory, the highlight of which goes back to Fisher.

The Algerian accounting legislator's presentation of traditional measurement alternatives (historical cost) and current values stems from his following of Anglo-Saxon references, specifically international ones, aimed at choosing the appropriate accounting model for the

institution to help capital maintenance. The using of historical cost alone under inflation results in a lack of capital maintenance.

What is noted about the Algerian accounting system in providing measurement alternatives is the following:

- It did not provide precise and clear definitions for each measurement alternative, allowing users of financial statements to interpret and have a good understanding of the standards and for standard preparers to properly set and build standards related to measurement, similar to what the international accounting reference has approached, where he did not define it as part of the article in the decision when he mentioned it, and was content with defining it at the end of the decision in the second appendix containing the list of definitions. He also did not place it in the conceptual framework and merely referred it to the decision containing the standards, even though it falls within the basic concepts of accounting.
- The Algerian legislator focused on the superiority of historical cost as a basis for measurement, as was the view of accounting thought and accounting bodies.

The Algerian financial accounting system applied what was stated in international accounting standards regarding the timing of revenue recognition, as stipulated in IAS 18, in (paragraph 2.111 of the decision). Accordingly, it did not keep pace with the developments taking place in revenue by applying what was stated in IFRS 15, due to the stagnation of this system, as it was adopted in 2010, and it did not follow those changes and improvements that affect international accounting standards, and this is one of the defects that it faces. As long as international accounting standards are adopted, it is necessary to keep pace with them to further improve the qualitative characteristics of information.

IV.2. Analyzing and discussing the elements associated with the concept and measurement of profit:

1. Capital maintenance:

Through examining the legal texts (legislative and regulatory) of the Algerian accounting system, especially Executive Decree No. 08-156, which includes the conceptual framework, no explicit or implicit reference was made to the concepts of capital maintenance, similar to comparative accounting systems (such as the international accounting system (IASB, 2018, pp. 78-81), the American, the Tunisian (Order No. 2459, 1996, pp. 9-10.), ..). Which makes the conceptual framework of the financial accounting system lose one of the most important elements represented in capital maintenance as it is the determinant of accounting income and measurement methods.

2. Principles and assumptions that help in measuring profit and capital maintenance:

We will try to discuss the relationship between some accounting principles and assumptions, measuring profit, and capital maintenance in the financial accounting system. Accounting assumptions and principles constitute the formal structure of accounting theory, and are therefore its most important component. At the same time, they represent the accumulation of knowledge that has been witnessed in the development of accounting theory. They are also considered important in forming the conceptual framework for any accounting system to facilitate and standardization of accounting practice. Generally accepted accounting principles have developed over time through experience and knowledge accumulation, they are essential for the performance of economic institutions (Gress,1970, p.50), through the applicable theoretical solutions they provide to improve the quality of the accounting information system, which results in making decisions based on information with good qualitative characteristics.

Hypotheses are distinguished from principles by their being a source of production through the development of accounting theory. Hence, they are considered fixed axioms, while principles may be subject to change and are therefore less stable. Accounting standards represent practical procedures in dealing with accounting issues, and they are derived from principles, as they are characterized by the flexibility of change to respond to new phenomena that arise in relation to the activity of the entity and its environment.

2.1. Accounting entity assumption:

The accounting entity assumption is considered neutral towards the accounting measurement methods and alternatives proposed in accounting theory and accounting models. It does not support a specific method, but rather is valid with all measurement methods, as long as they are linked to economic events of a financial nature related to the entity. (Helwa Hanan, 2006, p.354). Hence, considering that the issue of preserving capital is linked to the accounting measurement of capital and then of income, this assumption is important in filtering out the economic events that concern the entity only and not other entities and without the activities of its owners. According to this entity, it would maintain the proper application of the concepts of capital maintenance. Money, as well as determining the appropriate accounting model for the economic entity through a good combination between the concept of chosen capital and the appropriate measurement method in specific times and circumstances.

As for the position of the Algerian accounting legislator on this hypothesis, it approved it through (Article 9 of Executive Decree No. 08-156, which includes the application of the Law No. 07-11 (Conceptual Framework), p.12), where it states the following: "The entity should be considered as if it were an independent accounting unit separate from its owners. Financial accounting is based on the principle of separating the entity's assets, liabilities, expenses, and revenues from the assets, liabilities, expenses, and revenues of its owners or shareholders".

The definition recognized the necessity of separating the activity of the entity from its owners, and not mixing the activity of its owners within its activity. However, it was not clarified what distinguishes between the concept of an accounting unit or entity and the concept of legal personality, as explained by accounting thought (Hilwa Hanan, 2006, p.353), since the concept of accounting unit can be applied to entities that do not have a legal personality, such as individual business, group of companies, and interest groups, or even units within the institution when the latter is divided geographically or according to activity.

2.2. Going concern assumption:

Financial accounting is based on the assumption of going concern. This assumption was stated by (Moonitz, 1961) as follows: "*In the absence of evidence to the contrary, the entity should be viewed as remaining in operation indefinitely. In the presence of evidence that the entity has a limited life, it should not be viewed as remaining in operation indefinitely*". (in: Gress, 1970, p.39)

Therefore, in the absence of evidence indicating the opposite of the assumption of going concern, it is necessary for the institution's plans and programs to be implemented until completion. The assumption of going concern represents the natural expectation of the accounting entity and all related parties that the possibility of liquidation or cessation of activity represents an exception. Accordingly, under this assumption, the corporation's assets are expected to be of continuing benefit for the purposes for which they were purchased, and its liabilities are expected to be paid at maturity. (AAA, 1966. in: Gress, 1970, p.39)

Based on this assumption, the institution is considered a continuing accounting entity, carrying out its usual operational activity, and has no intention at the present time or in the foreseeable future to liquidate or significantly reduce its activity. This assumption entails choosing the method of measurement and presentation of financial statements, assuming the continuation of the organization's normal activity in the future. (Hilwa Hanan, 2006, p.367). Accordingly, the institution must replace its assets when they are depreciated, if it is able to implement its plans and programs until completion, in accordance with operating as a continuing institution (continuing activity). Which legitimizes recording depreciation as allocations that are deducted from profits for the purpose of replacing assets at the end of their use period, and then helps determine and measure accounting profit.

The going concern assumption is linked to the accounting entity assumption for the institution and not linked to the private lives of its owners (Hilwa Hanan, 2006, p.367; Gress, 1970, p.40). According to the entity assumption, the institution is separate and distinct from its owners, as especially the large ones are managed by professional management.

The going concern assumption has many implications for accounting procedures. The traditional accounting measurement (the historical cost convention) is based on it (Hilwa Hanan,

2006, p.370), as it is used to justify recording receivables and allocating historical expenses and revenues according to time periods, and it also justifies the necessary distribution assumptions. Basic provisions are made for future events that cannot be expected during the relevant accounting cycle. (Gress, 1970, p.40)

The relationship of going concern assumption is linked to traditional measurement methods (historical cost) and their alternatives (methods of measurement according to current values), discussed by (Helwa Hanan, 2006) based on the opinions of a book between supporters and opponents of historical cost, as follows:

A) - Going concern assumption and historical cost measurement:

Fixed assets are evaluated at historical cost, so going concern assumption is appropriate for this type of assets, because they were acquired to be used in the normal activity of the institution throughout the period of their usefulness, and therefore they are the exploitation tool that enables the realization of their activity (Hanan Helwa, 2006, p.370). This may include exceptional cases such as giving up fixed assets for the purpose of replacing them (to keep up with technology, for example). Based on this assumption, these assets are evaluated and depreciation is allocated on the basis of their historical cost, without considering the change in their value during exploitation, so that the accounting profit is determined.

The historical cost is the one that must be relied upon for measurement in the absence of a case of liquidation of the institution or the absence of evidence predicting the opposite of the Going concern assumption, which contradicts the possibility of applying current prices that are linked to the liquidation of assets and the attempt to convert them into monetary activity (Helwa Hanan, 2006, pp. 370-371).

B) - Going concern assumption and current values measurement:

A number of accounting theorists believe that this assumption does not justify the use of liquidation values, nor does it represent a basis for using historical cost, as long as there are measurement alternatives that provide reliability in current values (Helwa Hanan, 2006, p.372) This characteristic is what supports the use of historical cost and its persistence for many years.

(Chambers, 1966) interprets the going concern assumption to mean that the institution, as a legal entity, is facing continuous systemic liquidation and not coercive (situational) liquidation. Therefore, according to this vision of Chambers, the most appropriate measurement and consistency with the going concern assumption is according to current values (replacement cost in particular, or accounting according to the general level of prices). On this basis, in order for the institution to continue, the productive capacity of capital must be preserved by applying a measurement basis based on current values, and not maintenance of financial capital based on a measurement basis based on historical cost (Helwa Hanan, 2006, p.372), hence the importance of Going concern assumption in applying the concepts of capital maintenance and then determining appropriate profit measurement methods.

Given the importance of going concern assumption in capital maintenance, as it is considered a concept upon which the rules of accounting measurement, presentation of financial statements, and selection of measurement methods are based, therefore the Algerian legislator did not ignore this imposition, as it stipulated (Article 7 of Executive Decree N°08-156 relating to the framework Conceptual, p.11) states as follows: *“Financial statements are prepared on the basis of continuity of operation, assuming that the entity will continue its activities in an expected future, unless events or decisions occur before the date of publication of the accounts that could cause liquidation or cessation of activity in the near future. If the financial statements are not prepared on this basis, doubts about the continuity of exploitation are based and justified, and the basis upon which they are determined is specified in a note to financial statements”*.

The legislator clearly and explicitly adopted the going concern assumption, and stated that the preparation of financial statements, recognition, and measurement of many of the elements affected by this assumption, such as calculating depreciation, comparability, and stability of evaluation methods, are based on it, and accounting measurement methods, especially historical cost, are based on it and proceed from the dynamic accounting approach. The legislator indicates that if it becomes clear to the managers of the entity when preparing the financial statements in a certain

period that there is a contradiction to continuity (i.e. the cessation of activity), then the methods should be changed, including the methods of measurement based on liquidation, and it is necessary to disclose this, and determine the basis upon which it is based as a justification for violating the imposition of continuity in the note.

This article 7 of Executive Decree N°08-156 relating to the imposition of (assumption) for going concern is reinforced by Framework Law No. 07-11, as Chapter 6 thereof, entitled Changing Estimates and Accounting Methods, is included in articles 37 and 39, which are stipulated respectively:

“An entity may resort to changing accounting estimates or accounting methods if its purpose is to improve the quality of the financial statements.” (Article 37 of Law 07-11, 2007, p.06)
“Changing accounting methods concerns changing the principles, foundations, agreements, rules, and special practices that it applies the entity with the aim of preparing a presentation of the financial statements of the entity. No change in accounting methods shall be made unless it is imposed within the framework of a new regulation or if it allows improving the presentation of the financial statements of the entity concerned.” (Article 39 of Law 07-11, 2007, p.06)

Considering that the going concern is one of the accounting agreement (assumption), these articles allow changing accounting methods in general, which are represented in principles, agreements, rules, and special practices in order to improve the quality of the financial statements, as the application of these two articles was referred to the organization by text (Article 40 of Law No. 07-11, 2007, p.06) which stipulates the following: *“The manner in which changes in estimates and accounting methods are taken into account in the financial statements shall be determined by regulation”*. The latter is represented in (Executive Decree No. 08-156, containing the conceptual framework, 2008, p.11) As we find in its first article: *“This decree aims to implement clauses 5,...,40 of law No. 07-11...”*. We find in this (the referred executive decree the definition of accounting methods in its fifth article, p.11), which stipulates the following: *“Accounting methods are the principles, agreements, rules, and specific applications specified in the articles below, which the entity must apply permanently from one fiscal year to the next. Another for preparing and presenting its financial statements”*. Accordingly, we find that Article 7 of this executive decree regarding the going concern agreement falls below this article, and therefore it is within the definition of accounting methods as the Algerian accounting legislator called it.

Regarding the going concern assumption, the Algerian legislator adopted the same definition provided by the conceptual framework of international accounting standards, which it formulated in paragraph 3.9 as follows: *“Financial statements are normally prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading. If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial statements describe the basis used”*. (IASB, 2018, p.23)

It is clear by presenting the definition of the conceptual framework of international accounting standards that the Algerian accounting legislator took the same meaning, as this assumption is based on the following:

- Preparing financial statements on the assumption that activity will continue in the expected or foreseeable future;
- If it is observed that the activity may cease, it is necessary to prepare the financial statements accordingly;
- The basis on which the financial statements were prepared is disclosed.

2.3. Principle of stable monetary unit:

Accounting is based on the assumption of the stability of the purchasing power of the monetary unit, which is considered one of the generally accepted accounting principles in the model based on historical cost, (Helwa Hanan, 2003, p.52). Assuming the existence of a fixed monetary unit is unrealistic, but it is accepted and recognized by accountants. (Gress, 1970, pp.41-42). The lack of recognition by accounting professionals of changes in the value of the monetary unit is justified by the arguments summarized by (Gress, 1970, p.42.) as follows:

- First, the change is gradual in the value of the monetary unit, so that it does not significantly distort the comparison of results between successive accounting periods.
- Secondly, there is no objective method that determines the change in the value of the monetary unit, as the evaluation of the change depends on the choice and use of the index number.
- Third, even if the previous two arguments fail, some accountants have claimed that making the adjustment is too complex to understand and expensive.
- Fourth: Changes in purchasing power are slight, meaning changes in the value of money do not have significant weight, which makes them practically neglected and adherence to the application of historical cost. (Hilwa Hanan, 2006, p. 386).

The Principle of the stability of the monetary unit was overcome by issuing Statement No.3 of the Accounting Principles Board in the USA, acknowledging its relative instability, when it agreed to publish financial statements taking into account the general level of prices, according to the individual discretion of the company. If it chooses to present revised financial statements, it must make amendments to all balance sheet statement items. The amended financial statements must have a clear title and be presented as a supplement to the traditional financial statements and not parallel or alternative to them. (Gress, 1970, p.42). Hence, it came as a means of disclosure to help relevant parties use complementary data to rationalize their decisions, but the basic information on which the outputs of the accounting system, measurement and main presentation are built remains based on traditional foundations based on the historical cost agreement based on the assumption of the stability of the monetary unit.

The principle of the stability of the monetary unit finds itself as a control tool and an agreement among accounting professionals for preparing financial statements, and often a theoretical setting. In fact, the purchasing power of money changes constantly, and therefore the unit of measurement are characterized by instability, given that one of the functions of money is a means of exchange, and therefore it is expected that the prices resulting from the process will not stabilize over time, as is clear in the economies of countries.

It controls and detects the change in the purchasing power of money with indicators of the general level of prices. Regardless of their accuracy, they indicate the instability of the purchasing power of money, which limits the usefulness of accounting data, as monetary units with different dimensions are treated as identical by adding, subtracting, and comparing them with each other. (Gress, 1970, pp.42-43). Furthermore, comparing historical costs with current revenues can mislead users by producing a profit figure that includes both gains from holding assets and profits from selling or using assets (Henderson et al., 1992, in: O'brien, 1999, p.129), in the event that historical costs are not corrected using general or private indicators of current prices or values.

The index of changes in the purchasing power of money measures the decline in money and relates to the general level of prices and does not measure the specific prices of assets, as the former is due to price fluctuations that affect the economy and often tend towards a continuous rise in prices and represent the repercussions of inflation. As for the second related to assets, it is not related to the fluctuation of the value of money, but rather to the specificity of the asset itself represented by scarcity, use, presence of a specific market or not,...etc.

In this regard, the entity may face a change in the purchasing power of its invested capital that is completely different from what the general price level index indicates, because the entity's activity falls into markets for specific assets such as real estate, machinery, equipment,...etc, where the change in prices may not coincide. For these assets with the change in the general level of prices, (Gress, 1970, pp. 43-44) which leads to the preference for measuring the private prices of the entity's assets over the index of the general level of prices. Measuring the prices of an entity's assets allows calculating the reflection of the change in purchasing power of money expressed in the general price index. However, the opposite is not true because the general price index does not necessarily correct the fluctuation occurring in the prices of the entity's assets.

Accordingly, it is better to measure the change in the prices of assets purchased by the entity by determining the current replacement cost of these assets, as this can be achieved by obtaining quotations from suppliers, or by using specific price indicators to estimate the prices of specific assets. (Gress, 1970, p.44)

The Algerian accounting system adopted the principle of the stability of the monetary unit by obligating respect for the Algerian dinar through (Article 10 of Executive Decree No. 08-156 containing the conceptual framework, p.12), which stipulated: *“Every entity is obligated to respect the monetary unit agreement. The Algerian dinar constitutes the unit of measurement. It is the sole unit for recording the entity’s transactions. It also constitutes the unit of measurement for the information contained in the financial statements. Only transactions and events that can be evaluated in cash may be included in the appendix to the financial statements, which may have a financial impact”*. What is noted about the Algerian financial accounting system is that it has respected the principle of monetary unity by calling it that and by obligating the financial unit of measurement for operations that can be evaluated in money in the Algerian dinar.

The question asked is; does the above article indicate that the Algerian financial accounting system acknowledges the stability of the monetary unit? Of course, the use of monetary units in one currency, which is the country's currency, is understood as stability, but is it meant by a stable unit? As a general case, a stable unit is assumed, but reality shows the opposite with fluctuations in the purchasing power of money. As long as historical cost is considered the basic measurement for evaluation in financial statements, it is understood that the legislator assumes the stability of the monetary unit, and in return acknowledges its instability by adopting alternatives to measure historical cost, represented by current values for specific assets such as biological assets and financial instruments, or in times of high inflation, where money loses its purchasing power significantly. The embodiment of the principle of the stability of the monetary unit for the Algerian legislator is highlighted in (Article 16 of Executive Decree No. 08-156 containing the conceptual framework, p.12), where it states: *“The elements of assets, liabilities, products, and charges shall be recorded in accounting and presented in the financial statements at their historical cost, based on their value. On the date of their inspection, without taking into account the effects of price changes or the development of the purchasing power of the currency. However, specific assets and liabilities, such as biological assets or financial instruments, are evaluated at their fair value.”*

The tendency of the Algerian legislator to assume the stability of the monetary unit is clear by excluding the effects of price changes for private assets that use the current replacement cost (entry prices) or exit prices, and also excluding the development of the purchasing power of money. That is, the change in the general level of prices, which is calculated through indicators and the values are processed according to index numbers.

The phrase put by the legislator *“...without taking into account the effects of price changes or the development of the purchasing power of money...”* (Article 16 of Executive Decree No. 08-156 containing the conceptual framework, p.12), means the operations that come after initial recognition of balance sheet items and income accounts, being the original cost at that moment; That is, the initial recognition represents the cost corresponding to the true value of money. The problem that occurs is when these assets and liabilities remain in the entity’s possession for longer periods exceeding a year, which results in the historical cost being affected by changes in the purchasing power of money registered according to it, as it generally tends toward a decline. Hence, the legislator is well aware of the content of this phrase. In view of the stringency of this article, it is not possible to take into account the specific and general price changes of assets and liabilities, except for what is excluded from this article, which is specific assets and liabilities, for example biological assets and financial instruments, and this was referred to the entity to implement this through the Ministerial decision of July 26, 2008.

Accordingly, an evaluation of assets and liabilities will not be carried out, except for those excluded according to this article. However, upon reviewing the aforementioned decision, we find that it authorized another treatment for valuing fixed assets outside of special cases, as stated in paragraphs 20.121 and 21.121, respectively:

“According to the reference treatment stipulated in paragraph 5.121, any tangible fixed asset is included in the accounts after its first inclusion as an asset at its cost less total depreciation and total value losses. However, the entity is authorized to include in the accounts tangible fixed assets belonging to one or more categories of fixed assets that it determines in advance on the basis of their revalued amount.” (Decision dated July 26, 2008, p.10)

“Within the framework of this other authorized treatment, each fixed asset in question, after its initial recognition as an asset, is included in the accounts at its revalued amount, that is, its true value on the date of its revaluation, less the sum of depreciation and the sum of subsequent value losses. Revaluations are carried out with sufficient regularity so that the accounting value of the specified fixed assets does not differ significantly from the value that might have been determined using the true value on the closing date. The true value of land and buildings is usually their market value. This value is determined based on an estimate conducted by qualified professional evaluators. The real value of production facilities is also their market value. In the absence of market indicators (specialized establishment), its value is determined by its net replacement cost after depreciation”. (Decision dated July 26, 2008, p.10).

The Algerian legislator fell into a formal contradiction, as article 16 of executive decree No. 08-156 categorically indicates not to *“take into account the effects of price changes or the development of the purchasing power of money,”* while the decision authorizes another treatment for evaluating assets and liabilities using current values. Therefore, it is necessary to correct this defect in that article by indicating the existence of authorization. Not to mention calculating the loss in the value of assets, and recording it as a decrease in the value of the asset in question, as this is considered a departure from the historical cost by recording the effect of the development of the purchasing power of money through the decline in prices. Paragraphs 5.112 and 7.112 of the decision of July 26, 2008 stipulated the following:

“At each closing date, the entity estimates and examines whether there is any indication that any asset has not lost its value. If such an indication exists, the entity shall estimate the recoverable value of the asset.” (Decision dated July 26, 2008, p.07). *“When the realizable value of an asset is less than its net accounting value for depreciation, the latter value shall be reduced to its realizable value. The excess of the accounting value over the recoverable value then constitutes a loss in value”* (Decision dated July 26, 2008, p.07).

Accordingly, the application of impairment of assets is a respect for the principle of prudence, and it is a defect that the legislator fell into by placing that phrase *“without taking into account the effects of price changes or the development of the purchasing power of the money.”* It is necessary to correct it because this is considered a departure from it and from the historical cost method. The latter does not apply when the value of assets changes in the event of a decline in their prices, as the expected loss is recorded according to the principle of prudence, even though the sale did not occur.

The Algerian accounting legislator reserved the use of measurement alternatives for historical cost, which is considered fundamental to it, and therefore adopted the principle of the stability of the monetary unit in all elements of the balance sheet and income accounts as a basis for the measurement process. It was permitted to deviate from this principle as an exception for assets and liabilities that are characterized by specificity (financial instruments, biological assets, ...), and he authorized the revaluation of assets recorded in the balance sheet at their historical cost represented in tangible fixed assets: lands, buildings and production equipment, where their fair value is resorted to according to market values, whether exit or entry prices, by evaluation experts, who do this according to a methodology that culminates in a report of the process in which the evaluation outcomes are recorded, even if they are unable to find markets in the case of specific fixed assets such as industrial complex produced according to orders. Particularly for that entity, resort is made to the replacement cost, that is, the corresponding amount that it can pay to obtain that specific fixed asset less depreciation.

From the above, it is clear that the Algerian legislator made it possible to bypass the principle of the stability of the monetary unit in order to overcome the problem that often occurs through changing the purchasing power of money. Hence, providing the opportunity to apply the concepts of capital maintenance, and actually preserving it by avoiding misestimation of capital and profit to avoid distributing fictitious profits that lead to the erosion of capital.

2.4. Verifiable objective evidence convention:

Verification and objectivity of accounting data are considered among the basic features of the accounting process, as the requirement of proof is considered vital to the external auditor's responsibility for the financial statements of his clients and his legal obligations that stem from this

responsibility. We also find that the requirement of proof is also important for accounting, as the persuasive power of the evidence gives greater credibility to its outputs from financial statements.

Through the terminological and conceptual adjustment provided by (Patton and Littleton, in Gress, 1970 p.51) to the convention of verifiable and objective evidence, he concluded that objectivity is based on impartiality and distancing itself from the subjectivity represented by opinions. The use of subjectivity may be tainted by what disturbs the human psyche, such as the psychological state, bad intentions, etc., which affects the accounting recording, especially in measurement, which negatively affects the credibility of the net income. Objectivity will not be achieved unless there is material evidence proving the truth in the form of an external document such as an invoice or the bank check. This would help capital maintenance when a real profit is recognized justified by documents.

"Moonitz, 1961" uses the term "objective" to mean unbiased: it is subject to verification by another competent investigator (auditor). Objectivity is not limited to past or current exchange transactions only, but he states that estimates and forecasts can also be objective, if they can be predicted with a reasonable degree of accuracy. (in: Gress, 1970, p.52)

"Moonitz, 1961" confirms what "Patton and Littleton, 1940" argued that objectivity means impartiality and staying away from personal estimates, but he went too far when he separated it from the necessity of an actual exchange supported by a document, as he included it with estimates that according to him are objective if they are predicted with a reasonable degree of accuracy. This opens the way for alternatives of historical cost measurement represented by current values. However, this diligence will remain in the context of personal appreciation, so that it can come closer to objectivity, whenever it is controlled by standards and conditions. Such as prices being arrived at in the presence of efficient markets for the assets being evaluated, and controlling the updated value inputs, which are considered a personal estimate par excellence that requires adjusting to approach objectivity. Therefore, for these operations that are not linked to an actual transaction, justifications must be provided in the form of documents that enable other parties, such as the external auditor, to verify them and add strength to the accounting outputs.

As for the position of professional organizations, especially the Anglo-Saxon ones, on this issue, we find that the Committee of the American Accountants Association (AAA, 1966), for example, recommended, in the context of preparing the statement of basic accounting theory (ASOBAT), the use of four basic standards for evaluating accounting information, these standards are: relevance, Verifiability, free from bias, and quantification (in: Nana, p.14), where the verification criterion requires that similar measures or conclusions be reached if two or more qualified people examine the same data, and the criterion of free from bias means that the facts are determined and reported impartially, and it also means that the techniques used in developing the data must be free of bias.

(Gress, 1970, p. 53) confirms what "Moonitz, 1961" concluded by expanding the scope of objectivity. He calculated the latter as an accounting rule derived from a previous exchange process supported by a document, indicating free from bias and the possibility of verification by the auditor, which would it extends to the adoption of current replacement costs and the use of the price level and specific price indicators. Determining the current replacement cost of an asset is based on available market prices or on the basis of a quote from the supplier that is free of bias, and is subject to verification by the auditor, as free from bias and verification also extends to the use the general price level and specific price indices.

The process remains personal and approaches objectivity whenever it is supported by strong arguments. Hence, objectivity, whether in its traditional form linked to the actual transaction by applying historical cost supported by a document, or the considered objectivity linked to measurement by accountants by referring to markets and self-evaluation using measurement alternatives. This would allow the application of alternatives for capital maintenance, whether physical or financial, to choose the appropriate accounting model for each situation, which affects the objectivity of measuring profit.

As for what is related to the position of the Algerian financial accounting system regarding this accounting convention, when examining Executive Decree No. 08-165, which contains the conceptual framework, we did not find any reference to objectivity or verifiable evidence as a clear concept and to which an article or articles are allocated to this meaning. Considering that Law No.

07-11 includes in parts of it concepts related to the conceptual framework. we examined it to search for this convention or what it means, to find in the third chapter, "Regulation of Accounting," what is meant by objectivity in articles 11, 17 and 18, which respectively stipulate the following: "Clause 11: The entity shall determine, under its responsibility, the necessary procedures to establish an accounting organization that allows both internal and external control." (Law 07-11, 2007, p.04). While it stipulates, "Article 17: Every accounting registration (entry) specifies the source, content, and specification of each information, as well as the reference of the evidentiary document on which it is based." (Law 07-11, 2007, p.04) It also stipulates, "Article 18: Every accounting writing (entry) is based on a proven document dated and affixed to a piece of paper or any other support that guarantees credibility, preservation, and the possibility of reproducing its content on papers..." (Law 07-11, 2007, p.04)

We find that the legislator, through article 11, obliges the entity, while bearing its responsibilities (civil and criminal), to establish a regulation that allows oversight, especially external oversight, the most prominent of which is legal audit work, and all relevant parties such as tax agents. This regulation will not allow oversight unless there are justification documents for accounting operations. Hence, the legislator requires the necessity of providing indirect evidence.

Articles 17 and 18 reinforced article 11, as article 17 emphasized that every accounting registration (entry) should record the reference of the document to provide evidence and add objectivity to the accounting process. While article 18 explained the characteristics of the supporting document in that it is dated and in traditional paper form, or in any other support; The legislator means that it is in electronic media such as a CD, or on a computer, or in any technological means that guarantees preservation and the possibility of copying it to reproduce its content in paper form.

We discern from these provisions what strengthens the verifiable objective evidence convention within the framework of a procedure that falls within accounting regulation, which is linked to the nature of continental systems that rely on control and documentation, as was the case under the national accounting plan and also reinforced in the commercial law in relation to the conditions of mandatory accounting books. Accordingly, the legislator did not place a article or articles for it in the conceptual framework, since this agreement on objectivity is linked to accounting measurement.

2.5. Periodicity assumption:

Determining net income is linked to the assumption of periodicity, which requires the entity to take a certain period of time to disclose the result of its performance. The periodicity is regular, as it is generally taken as a civil year. In general, the assumption was not mentioned within the conceptual framework of the Algerian accounting system, by singling out a special article for it similar to other assumptions and principles, in Executive Decree No. 08-156, which contains the conceptual framework, but it is understood implicitly, and through the nature of accounting work, that it depends on the accounting periodicity, which is in the form of a fiscal year, where, for example, we find that (Article 12 of Executive Decree No. 08-156, p.12) regarding the principle of independence, stipulates: "The result of each fiscal year shall be independent of the year that precedes it and of the year, and in order to identify them, only the events and processes related to them must be attributed to them".

2-6. Principle of revenue realization:

The revenue realization is intended to result from an actual exchange transaction. This principle examines the timing of revenue recognition, that is, the time point for its accounting confirmation, and how revenue is allocated between acquisition activities and between accounting cycles. The general rule for recognizing revenue is when the sale and delivery process is completed, that is, an actual exchange occurs between the entity and a third party. (Helwa Hanan, 2006, p.413)

The Algerian accounting system referred to this principle in (Article 27 of Executive Decree No. 08-156, p.13), where it stated: "The turnover represents the sales of goods and products sold, and goods and services evaluated on the basis of the selling price without calculating fees, and achieved by the entity with customers, in the course of his normal and usual activity."

Revenue is recognized in the Algerian financial accounting system in accordance with IAS 18, as this has not yet been updated by adopting the new standard for revenue, which is IFRS 15, and it

stipulated (paragraph 2.111 of the decision dated March 25, 2009, p.06) that: “*Products of ordinary activities resulting from the sale of goods must be included in the accounts when the following conditions are met:*”

- *That the entity has transferred to the buyer the significant risks and rewards inherent in ownership of the goods,*
- *That the entity no longer has any involvement in the management as is normally imposed on the owner, or in the actual control of the goods relinquished,*
- *That it is possible to estimate honestly the amount of the products of the ordinary activities,*
- *It is probable that economic benefits associated with the transaction will flow to the entity*
- *It is possible to honestly assess the costs that the entity has incurred or will incur in connection with the transaction. ...”*

2.7. Principle of matching:

This principle is considered important in determining the entity’s outcome for the accounting cycle. To achieve revenue, it is logical for it to be preceded by expenses. Hence the principle of matching arises to accurately determine the annual profit, respecting the principle of the independence, so that the expenses and revenues that pertain to the cycle must be recorded exclusively.

This principle was referred to in (Article 28 of Executive Decree No. 08-156, p. 14), where it stated: “*The net result for the fiscal year is equal to the difference between the total revenues and the total expenses for that fiscal year, and it is identical to the change in private funds between the beginning of the year and Finance and its end, except for operations that directly affect the amount of private capital and do not affect the expenses or the revenues. The net result represents a profit when there is a surplus of revenues over the expenses, and represents a loss in the opposite case”.*

V- Conclusion:

Net income and its measurement represent a key objective of financial accounting. It is used to measure an organization's efficiency, enabling users of financial statements to make informed decisions based on their individual circumstances. However, challenges and issues arise in measuring and recognizing income to provide relevant and reliable information that accurately reflects an organization's economic activity, given the multitude of available measurement alternatives. Therefore, this article aims to address and resolve issues related to this central concept in financial accounting. The study concluded with a number of results, which are as follows:

- It is clear from reviewing accounting and economic income that they are the result of two different trends with different tools and background. Where accounting income expresses a technical measurement of the proceeds of an entity’s activity through the income statement, and that is the direct method of deducting expenses from revenues, and this is measured in accordance with generally accepted accounting principles; The most important of which is the historical cost, Going concern assumption, and the stability of the monetary unit, and therefore it represents the traditional model of financial accounting (historical cost). While economic income is considered the product of school thought and economic theory, which is based on the work of “Fisher” in determining the relationship of capital to income and “Hicks” in defining and measuring income, this model of income is what opened a wide scope for the application of modern models in financial accounting by applying measurement alternatives, especially present value and current value models. The conceptual frameworks of the Anglo-Saxon accounting authorities in particular have adopted the economic income model and the resulting new concepts, such as the concept of comprehensive income.
- The diversity in concepts of income between economists and accounting enriched accounting thought with many accounting alternatives, and then helped crystallize the concept of capital maintenance, both physical and financial, as it is the restriction through which income is calculated as remaining after capital maintenance or the investment that generates those incomes. It is acceptable to recognize income without keeping the entity that generates it.
- The application of IFRS 15 came to more embody the premise of liability accounting, as it focuses in the five principles on contractual obligations in recognizing revenue when

implemented. It also focuses on the idea of transferring control as a parameter for recognizing revenue recording, as is the case with asset registration, that is, making control through several indicators, including the physical transfer of the commodity, the transfer of ownership, and the transfer of benefits and risks to the buyer, the latter of which alone was an indicator of revenue recognition in the previous canceled standard. The measurement of revenue is now calculated by the value of the amounts that can be received when implementing obligations, in contrast to what was previously the case, which was the fair value of the corresponding amount that is received or will be received.

- The IFRS 15 opened a wide scope for arbitration through its steps in revenue recognition and then subjectivity, so the International Accounting Reference devoted a detailed guide to it to answer all possible cases of revenue recognition and measurement, while providing illustrative examples. All of this is for the purpose of guiding the preparers of financial statements to provide income that reflects the true performance of the entity, and for the purpose of giving indicators that enable the provision of comparable information. Because losing the comparability characteristic through applying the standard would affect users of financial statements to make incorrect decisions. Despite all this, it is necessary for the international accounting authority to periodically review the standard and test it through feedback to reduce arbitration as it leads to subjectivity and differences in applying and interpreting the same revenue positions.
- It is noted in the Algerian financial accounting system the complete absence of the concept of capital maintenance, the basic determinant of methods for measuring assets and profit, contrary to what is found in the Anglo-Saxon accounting references. In view of the importance and solidity of the concept of capital maintenance, we find that it represents the foundations on which accounting is based, which makes it intersect with many accounting concepts and principles, especially those related to the accounting measurement of the elements of the balance sheet and income, as stated by (Hochreutener, 2018, p.21). When he points out that capital maintenance and profit or loss are the cornerstone of financial accounting, and (Gellein, 1987: in: Hochreutener, 2018, p.21) when he emphasizes that all other accounting concepts are either derived from or based upon capital maintenance. In this context, it is clear that the Algerian legislator has not neglected to address accounting principles and concepts that enhance the concept of capital maintenance and measuring profit.
- The study made it possible to examine some of the imbalances that exist at the level of the Algerian financial accounting system, which sometimes reach the point of contradiction between its components, which requires speedy treatment and control in order to create a kind of harmony between its legal texts.

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