



KONFERENCIAKÖTET

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**Nemzetközi tudományos konferencia
a Magyar Tudomány Ünnepe alkalmából**
International Scientific Conference
on the Occasion of the Hungarian Science Festival

Sopron, 2023. november 23.
23 November 2023, Sopron

**FENNTARTHATÓSÁGI ÁTMENET:
KIHÍVÁSOK ÉS INNOVATÍV MEGOLDÁSOK**
SUSTAINABILITY TRANSITIONS: CHALLENGES AND INNOVATIVE SOLUTIONS

Szerkesztők / Editors:

OBÁDOVICS Csilla, RESPERGER Richárd, SZÉLES Zsuzsanna, TÓTH Balázs István

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CONFERENCE PROCEEDINGS

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TARTALOMJEGYZÉK / CONTENTS

Plenáris szekció

Plenary Session

How to Make European Integration Fair and Sustainable? <i>István P. SZÉKELY</i>	13
---	----

1. szekció: Fenntartható gazdálkodás és menedzsment, körforgásos gazdaság Session 1: Sustainable Economy and Management, Circular Economy

A zöld ellátási láncok aktuális kérdései - Kritikai szakirodalmi összefoglalás <i>PIRICZ Noémi</i>	27
--	----

Well-being - kulcs a fenntartható működéshez <i>KÓPHÁZI Andrea – KOVÁCSNÉ LACZKÓ Éva Mária</i>	36
--	----

Szervezeti kultúra és fenntarthatóság <i>KOVÁCSNÉ LACZKÓ Éva Mária</i>	48
--	----

Az új mexikói kvótakereskedelmi rendszer és erdészeti vonatkozásai <i>KIRÁLY Éva – BOROVICS Attila</i>	61
--	----

A designesztétika gazdasági megközelítésének lehetőségei <i>REMÉNYI Andrea – ZALAVÁRI József</i>	76
--	----

A körforgásos üzleti modellek a vállalati gyakorlatokban <i>KRIZA Máté</i>	98
--	----

2. szekció: Társadalmi kihívások és társadalmi innovációk a fenntartható fejlődésben Session 2: Social Challenges and Innovations in Sustainable Development

Társadalmi kihívások a divatipari fogyasztás terén <i>VIZI Noémi</i>	119
--	-----

Klímaszorongás jelenléte az X, Y és Z generáció életében <i>SZEBERÉNYI András</i>	128
---	-----

Közelségi torzítás – a home office egyik kihívása <i>IONESCU Astrid</i>	147
---	-----

Megérti-e a választ, ha megkérdezi kezelőorvosát, gyógyszerészét? Az egészségműveltség mérésének aktuális kérdései Magyarországon <i>PORZSOLT Péter</i>	154
---	-----

A digitális egészségügyi ellátás, mint innováció mérési lehetőségei <i>KOVÁCS Erika</i>	168
---	-----

3. szekció: Fenntartható pénzügyek és számvitel
Session 3: Sustainable Finance and Accounting

A közösségi költségvetési számvitel koncepciója és dilemmái <i>SISA Krisztina A. – SIKLÓSI Ágnes – VERESS Attila – DENICH Ervin</i>	181
Az iszlám banki számvitel digitalizációjának elméleti és filozófiai megközelítése <i>CSEH Balázs</i>	193
A vállalkozások csőd kockázatának és a kötvényminősítések együttmozgása <i>SZÁNTÓ Tünde Katalin</i>	202
A globális minimumadó következményei és megvalósíthatósága a multinacionális vállalatok számára <i>MATTIASSICH Enikő – SZÓKA Károly</i>	211

4. szekció: Fenntartható turizmus és marketing
Session 4: Sustainable Tourism and Marketing

A fenntartható turizmus: valóság vagy átverés? <i>PALANCSA Attila</i>	221
Metamarketing: fenntartható innovációk a valós és virtuális lehetőségek imperatív szimbiózisa mentén <i>REMÉNYI Andrea</i>	237
A fennmaradás és fenntarthatóság aspektusainak vizsgálata a szálláshely-szolgáltatással foglalkozó KKV-szektorban rendkívüli helyzetek idején <i>VARGYAS Daniella – KERESZTES Gábor</i>	261
Tudatosság és fenntarthatóság a nyaralás alatt is <i>MÉSZÁROS Katalin – HOSCHEK Mónika – Németh Nikoletta</i>	270
A soproni egyetemisták külföldi tervei <i>OBÁDOVICS Csilla – RUFF Tamás</i>	283
Country Branding of the Hashemite Kingdom of Jordan <i>Mohammad Hani KHLEFAT</i>	295
Community-Based Tourism in Southeast Asia <i>Thi Thuy Sinh TRAN – Nikoletta NÉMETH – Md. Sadrul Islam SARKER – Yuan ZHANG – NHAT ANH NGUYEN</i>	309

5. szekció: Sustainable Finance and Accounting, Sustainable Development
Session 5: Sustainable Finance and Accounting, Sustainable Development

Stakeholder Engagement in the Development of the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and of the International Sustainability Standards Board (ISSB)

Alina ALEXENKO 329

The IFRS and the Financial Accounting System in Algeria: A Literature Review

Asma MECHTA – Zsuzsanna SZÉLES – Ágnes SIKLÓSI 342

Potential Effects of Industry 4.0 Technologies on Environmental Sustainability - A Systematic Literature Review

Mohamed EL MERROUN 351

The Use of Geothermal Energy for Sustainable Development and Economic Prosperity

Nadjat KOUKI – Andrea VITYI 365

6. szekció: Sustainability Transformation and Circular Economy
Session 6: Sustainability Transformation and Circular Economy

A fenntarthatóság, a társadalmi szerepvállalás és a felelős vállalatirányítás szabályozásának szerepe a vállalati innovációban

BARTÓK István János 381

Circular Economy Research Trends in the Textile and Apparel Industry: A Bibliometric Analysis

Md. Sadrul Islam SARKER – Thi Thuy Sinh TRAN – István János BARTÓK 389

The Historical Evolution of Employee Idea Management: A Comprehensive Review

Viktória ANGYAL 405

7. szekció: Sustainable Economy and Management
Session 7: Sustainable Economy and Management

Bewältigungsstrategien eines nachhaltigen Managements von Organisationen innerhalb einer VUCA-Umwelt: Eine systematische Literaturrecherche

Mike WEISS 421

Influences of Autonomous Vehicles on Sustainability: A Systematic Literature Review

Phillipp NOLL – Zoltán SZABÓ 436

Trends in Sustainable Leadership

Roland SEESE – Katalin DIÓSSI 452

Recruiting for Resilience: An Economic Approach to Mitigate Candidate Ghosting

Laureana Anna Erika TEICHERT 460

Führung auf Distanz - Herausforderungen für Führungskräfte durch die Nutzung von Home-Office	
<i>Norbert KLEIN</i>	473
A Generative AI and Neural Network Approach to Sustainable Digital Transformation: A Focus on Medical and Marketing Sectors	
<i>Alexander Maximilian RÖSER – Cedric BARTELT</i>	483
Allgemeine Alterswahrnehmung bei StudentInnen in den österreichischen und ungarischen Grenzregionen	
<i>Dorottya PAKAI – Csilla OBÁDOVICS</i>	498
8. szekció: Társadalmi kihívások és társadalmi innovációk a fenntartható fejlődésben	
Session 8: Social Challenges and Innovations in Sustainable Development	
Fenntartható olvasás a digitális korban	
<i>MOLNÁR Csilla</i>	509
Okos és fenntartható városfejlesztés felelősségteljes digitális innovációval	
<i>GYULAI Tamás – NAGY Marianna</i>	518
A coaching szerepe a vezetőfejlesztésben	
<i>KÓPHÁZI Andrea – Éva LÖWE</i>	535
9. szekció: Fenntartható gazdálkodás és menedzsment	
Session 9: Sustainable Economy and Management	
A szolgáltatók szerepe és felelőssége a desztinációk fenntartható turizmusának megteremtésében, illetve kialakításában: Szisztematikus irodalmi áttekintés	
<i>TEVELY Titanilla Virág – BEHRINGER Zsuzsanna</i>	548
Bükkfürdő imázsának élménymarketing alapú vizsgálata	
<i>HORVÁTH Kornélia Zsanett</i>	563
A public relations (PR) tevékenység határai és viszonya a marketinghez - Egy PR szakemberek körében végzett kvantitatív kutatás eredményei	
<i>KÁROLY Róbert – LUKÁCS Rita – PAPP-VÁRY Árpád Ferenc</i>	572
Márkázott superhősök: Hogyan formálják a különböző termék- és szolgáltatásmárkák Amerika kapitány és Vasember karakterét a Marvel filmekben?	
<i>PAPP-VÁRY Árpád Ferenc – RÖNKY Áron</i>	591
Sztármárka-építés hosszú távon: Cristiano Ronaldo és CR7 márkájának megítélése – Egy kvalitatív kutatás tapasztalatai	
<i>KORIM Dorina – PAPP-VÁRY Árpád Ferenc</i>	609

10. szekció: Sustainable Economy and Management I.
Session 10: Sustainable Economy and Management I.

The Role of Mountain Tourism Activities and Facilities on Domestic Tourism Consumption in Tourism Destinations <i>Deborah KANGAI – Eliyas Ebrahim AMAN – Árpád Ferenc PAPP-VÁRY – Viktória SZENTE</i>	624
Sustainable Project Management <i>Attila LEGOZA</i>	633
The Effect of Sustainability Development Using the Example of Green Washing <i>Dijana VUKOVIĆ – Tanja UNTERSWEG</i>	641
Sustainable Strategies in Case of Start-Up Enterprises <i>Peter IMRICKO</i>	654
Sustainable Strategic Management at Multinational Companies <i>Peter IMRICKO</i>	663
The EU as a “Leadiator” in Climate Governance - a Successful Soft Power Instrument? An Analysis with a Focus on Sustainable Mobility <i>Sarah DIEHL</i>	674
Az irodater komfortjának vizsgálata a munkavállalók szempontjából – Út a jövő optimális irodája felé <i>GROZDICS Anett Tímea – BORSOS Ágnes</i>	684
Mögliche Auswirkungen von CSRD & ESRS auf die digitale Wirtschaft und der Fertigungsindustrie in Deutschland: aus der Perspektive der Industrieperformance und der nachhaltigen Entwicklung <i>Mohammad Reza ROBATIAN</i>	696

11. szekció: Sustainable Economy and Management II.
Session 11: Sustainable Economy and Management II.

Sustainability and Climate Protection in Hospitals - Green Hospitals in the Future in Germany <i>Patricia Carola MERTEN</i>	719
Territoriality in Climate Adaptation? Space Interpretations of Different Disciplines and Fields and their Potential Utilization in the Examination of Climate Adaptation’s Territorial Aspects <i>Attila SÜTŐ</i>	727
Sustainable Unity in the European Insurance Market: Calculating Personal Injury Claims (From Experience to Methodology) <i>Zsolt Szabolcs EKE</i>	745

12. szekció: Poszter szekció
Session 12: Poster Session

A dendromassza-hasznosítás, mint megújuló természeti erőforrás szerepe a fenntartható, körkörös gazdaságban <i>SZAKÁLOSNÉ MÁTYÁS Katalin</i>	755
Az I szektor karbonhatékonyságának vizsgálata Magyarországon <i>KOVÁCSNÉ SZÉKELY Ilona – MAGYAR Norbert – JAKUSCHNÉ KOCSIS Tímea</i>	761
A visegrádi országok egészségügyi reformjainak és intézkedéseinek összehasonlítása <i>VITÉZ-DURGULA Judit – SÓTONYI Tamás Péter</i>	766
A márkaépítés hatása a fogyasztói lojalításra a Magyar Telekom esetében <i>TAKÁTS Alexandra – SZÁSZ Zsombor Levente</i>	780
Examining the Impact of Certain Factors on the Delivery Time of a Manufacturing Firm Using Data Science Methods <i>Zsolt TÓTH – József GARAB</i>	800
Artificial Intelligence with an Economic Growth Perspective <i>Firat ŞAHİN</i>	809

The IFRS and the Financial Accounting System in Algeria: A Literature Review

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Abstract:

This study aims to explore the potential challenges that Algeria may face in fully adopting the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). Even though the adoption of IFRS has significantly increased and resulted in significant improvements in transparency, accounting quality, and comparability of financial information among global enterprises, Algeria continues to use a financial accounting system (SCF) that is only inspired by IAS. This study does a thorough review of the literature to find these possible problems and explain how the SCF works in terms of how it fits with IFRS. The findings indicate that Algeria faced multifaceted challenges, such as underdeveloped financial markets, difficulties in asset valuation, a lack of comprehensive economic information systems, slow progress in accounting education, and resistance to change among enterprises. The rushed implementation, inadequate infrastructure, and entrenched reliance on previous systems compounded the hurdles. Overcoming these obstacles requires comprehensive reforms addressing regulatory, educational, and cultural aspects while providing sufficient time for adjustment and capacity building.

Keywords: Financial Accounting System (SCF), International Financial Reporting Standards (IFRS), International Accounting Standards (IAS)

JEL Codes: M40, M41, M49

1. Introduction

IFRS as issued by International Accounting Standards Board (IASB) in 2001 to provide high-quality accounting reporting and comparable accounting information around the world (Agana et al., 2023). Recently, more than 160 countries, including about 30 African countries, have been interested in adopting IFRS in order to improve the quality of their financial reporting and to be in line with developed practices (Agyei-Boapeah et al., 2020).

Algeria, like other developing countries has been working on its economic reforms, focusing on improving its accounting system. They shifted from General Accounting System PCG to National Accounting Plan PCN to a SCF (Système Comptable Financier), which is only inspired by IFRS. However, Algeria hasn't fully adopted these international standards yet (Bilal, 2021).

The financial accounting system was crafted within a comprehensive legislative and regulatory framework, navigating the risks of bias, misinterpretation, and inaccuracies. (Bachiri, 2023) It aimed to establish clearer principles and rules guiding accounting practices, aligning with the IASs' conceptual framework. Introduced over 14 years ago, it encountered issues due to Algeria's specific economic landscape. This study aims to explore potential hurdles should Algeria fully embrace the IAS and IFRS. It seeks to uncover the challenges obstructing Algeria's adoption of IAS and IFRS. The question that can be raised in this regard is "What are the challenges and obstacles that hamper Algeria from adopting IAS and IFRS?"

2. Research methodology

This qualitative study employs a Narrative Review methodology to explore the challenges Algeria might encounter in embracing the International Financial Reporting Standards fully. The research focuses on gathering secondary data from journals, articles, and dissertations pertinent to Algeria's financial accounting system and IFRS. To collect this secondary data, resources such as Scopus, Web of Science, and Google Scholar will be utilized.

3. Literature review

This section of the article seeks to make a valuable contribution to the ongoing academic discussions regarding the revisions of the SCF and IFRS. Numerous studies have already explored these concepts, including but not limited to:

Sefiane (2011) entitled "The New Financial Accounting System in Algeria; The Horizons and the Challenges". The paper aimed to offer insights into the Algerian Accounting System, specifically focusing on its historical development, including the implementation of new accounting standards and the emergence of a new financial accounting system. Additionally, it explored the relevance of the new financial accounting system within the current economic climate of Algeria. Furthermore, the paper concluded that while the uniformity of the new financial accounting system is commendable, there may be limitations in its progression toward cost and management accounting. As a result, further efforts are necessary to foster the development of the system in these areas. In summary, this paper provided a comprehensive overview of the Algerian Accounting System, examining its historical foundations, the introduction of new accounting standards, and the suitability of the financial accounting system in response to the country's evolving economic conditions. It emphasizes the need for continued efforts to enhance the system's capabilities in cost and management accounting.

Remmache (2020) entitled "Adoption of accounting and financial system in Algeria: A critical appraisal". This article aims to offer a critical analysis of Algeria's transition to the SCF, launched by Algerian authorities in 1998. The study derives insights from discussions with accounting professionals held during conferences and specialized training sessions, facilitated by the Accounting National Council (CNC). The findings underscore two primary obstacles identified by these professionals that hinder their adherence to the FAS. These obstacles revolve around weaknesses observed in both the financial market infrastructure and the existing training policies. These deficiencies are perceived to significantly impede professionals from fully complying with the requirements set forth by the SCF.

Hadjadj and Announ, (2021) entitled "The role of accounting reform in achieving the requirements of optimum usage of the FAS according to the mechanisms proposed for modernization". This study sheds light on Algeria's accounting reform, particularly its implementation through the FAS. It aims to imbue the accounting practices in Maghreb countries with an international perspective. The evaluation focuses on how well the accounting system aligns with the requirements of the local economic environment, aiming to propose a structured approach for

continual modernization. The study concludes that the accounting reform should not be sporadic but rather periodic to maintain synchronization between the local accounting norms and the global accounting framework. As a solution, it suggests establishing a dedicated committee at the local level to oversee calibration tasks, fostering the evolution of the accounting profession while aligning it with international standards.

Furthermore, the study highlights the importance of leveraging accounting practices from various countries and comprehending environmental factors to effectively harmonize with international standards. It stresses the need to adapt the accounting system in tandem with the Algerian economic environment, ensuring their parallel development for optimal functionality.

Mehaoua et al., (2021) entitled "An attempt to evaluate The Legitimacy of Accounting Reform Decision in Developing Countries under IFRS: An analytical perspective of the new institutional theory 'Case study of Algeria'". This study investigated and elucidated the legitimacy of accounting reform in Algeria through the utilization of qualitative research methods, specifically employing a purposive sampling technique to select respondents. The study employed various tools such as interviews, observations, and analysis of archival data. Additionally, this paper makes a conceptual contribution by highlighting that the pursuit of isomorphism, driven by various forms of legitimacy (coercive, normative, mimetic), contradicts the fundamental concept of legitimacy rooted in acceptance and recognition. The findings indicate that accounting reform in Algeria lacks legitimacy due to significant institutional pressures influencing the reform decision, coupled with the dominant role of the state in initiating and managing the accounting reform process.

Miliani & Kameli (2021) entitled "The Impact of Accounting Reform in Algeria on the National Electronic Industries Corporation under International Accounting Standards IAS/IFRS". This study aimed to delve into the effects of accounting reform on the accounting practices specifically within the National Corporation for Electronic Industries in Sidi Bel Abbas, serving as a case study for over a decade since the reform's implementation. To analyze this, the research employed SPSS, a statistical analysis tool, to dissect questionnaire data, while interviews were conducted to validate and test hypotheses. The outcomes revealed a noticeable positive shift in the company's accounting practices attributable to the accounting reform. However, despite this observed improvement, the study highlights that the originally intended objectives of the accounting reform process remain largely unmet within the company. In essence, while there's evidence of positive change, the reform has not fully accomplished its envisioned goals within this specific industrial enterprise.

Miliani and Kameli, (2022) entitled "Accounting Reform Process in Algeria: Lessons and Challenges". This study seeks to assess the accounting reform journey in Algeria subsequent to the adoption of IAS and financial reporting standards. This process unfolded amidst unique circumstances and under certain constraints, culminating in the enactment of Act No. 07-11 on November 25, 2007, pertaining to the FAS. The study's findings reveal numerous deficiencies spanning the phases before, during, and after the implementation of the financial accounting system. These include the unresolved issue of accounting irregularities, challenges regarding an aging workforce among accounting professionals, and the absence of updates aligning the FAS with the advancements present in international accounting standards. These unresolved issues persist, indicating ongoing challenges within Algeria's accounting landscape.

Sebti and Benterki, (2023) entitled "The Institutional Change of the Algerian Financial Accounting System: According to 'Douglass North's' Theory". The research delved into the role of Algerian institutions in shaping the evolution of the FAS. It found that institutional evolution, defined as the transformation of informal rules within the established formal framework, prompts organizations to adapt and modify their practices accordingly. This evolution is crucial for systemic change in accounting practices. However, the study highlighted a concerning trend:

essential governance bodies in Algeria, notably the Accounting National Council and the financial market apparatus, seem to lack active engagement or effectiveness. These institutions typically play pivotal roles in overseeing and driving changes in the financial accounting landscape. Their apparent inactivity or limited function has led to a stagnation within the Algerian Financial Accounting System. As a consequence, the system struggles to progress or adapt to evolving global standards, impeding its ability to keep pace with international norms and best practices in accounting.

4. Conceptual framework

4.1. Algeria's Accounting System Evolution

Algeria's economic journey has seen significant shifts, prompting corresponding changes in its accounting system over time (Bilal, 2021). The evolution of Algeria's accounting system encompasses several distinct phases:

a. **Transition Phase (1962-1975):** In the aftermath of independence in 1962, Algeria initially adopted the French General Accounting Scheme. However, recognizing the need for a distinct framework, it developed the National Accounting Scheme by 1975, tailoring accounting practices to its unique economic landscape.

b. **Implementation Phase (1976-1980s):** Starting in 1976, Algeria began implementing its National Accounting Scheme, which aligned with the prevalent socialist economic activities of the time. Despite its alignment, this phase faced criticisms and encountered limitations. Nevertheless, it persisted until the late 1980s, shaping the country's accounting practices.

c. **Phase of Economic Changes (1988-1998):** The late 1980s to 1998 marked a crucial period of economic transition for Algeria, shifting from a socialist-oriented economy to a capitalist market model. During this phase, efforts were made to address the shortcomings identified in the existing national accounting scheme, reflecting the changing economic landscape.

d. **Review Phase (1998-2007):** Starting in 1998, Algeria conducted a comprehensive review of its accounting scheme and associated information. This extensive review process led to the enactment of the Financial Accounting System Application Act in 2007. This new act aimed to align Algeria's accounting standards with international practices. Additionally, a legal directive in 1999 emphasized the importance of considering economic reality and providing investor-centric information, moving beyond strict adherence to legal requirements.

e. **Post-Financial Accounting System (2007-Present):** Following the implementation of the Financial Accounting System aligned with international standards, Algeria's Ministry of Finance and the National Accounting Council have been actively involved in issuing legislative resolutions, instructions, and explanatory materials. These resources serve to guide and facilitate the effective implementation of the FAS across the country, ensuring compliance and understanding of the new framework. Act N° 11-07 was officially published in the Algerian Official Journal on November 25th, 2007, initiating a roadmap for the Ministries of Higher Education and Scientific Research, as well as Vocational Training and Education, to revamp accounting education in alignment with contemporary developments (Bachiri, 2023). The implementation of Act 11-07 was initially slated for 2009, but Executive Decree N° 156-08, issued on May 26th, 2008, postponed its application until January 2010. As part of this transition, Algerian companies were mandated to reassess and revalue their assets before adopting the new FAS.

The Figure 1 provides an overview of the Accounting Reform Process in Algeria:

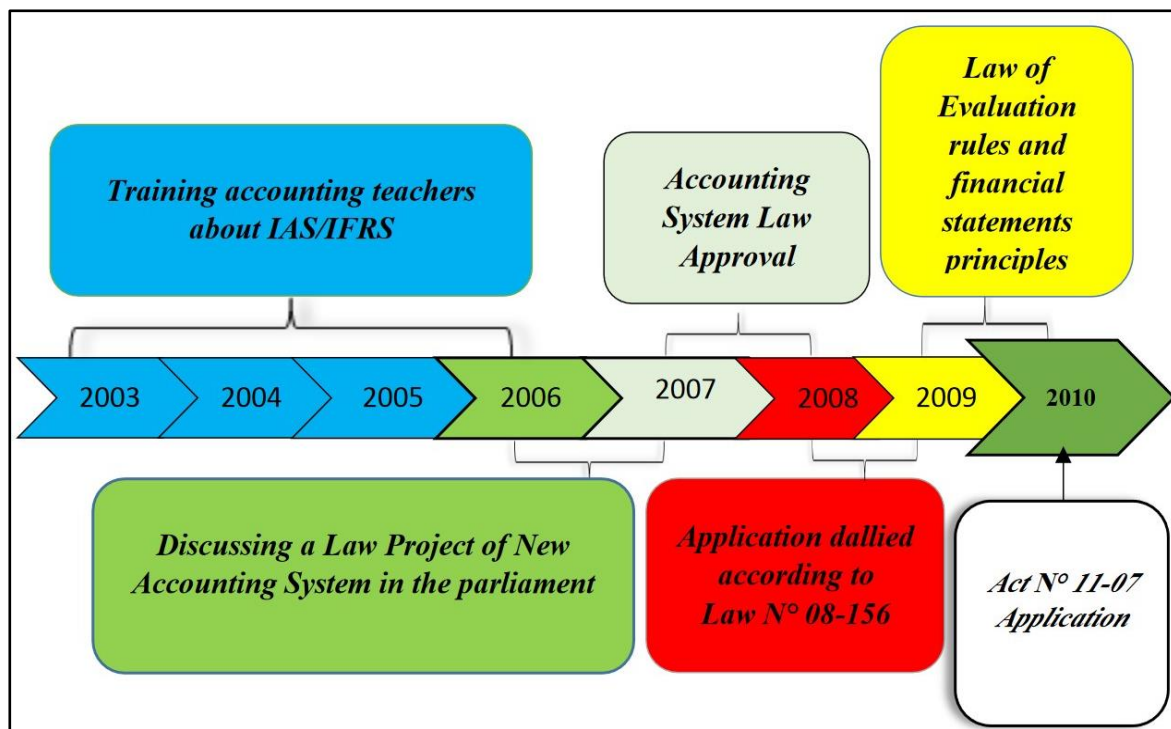


Figure 1: Project for Accounting Reform in Algeria

Source: Miliani (2022)

This journey illustrates Algeria's ongoing efforts to adapt its accounting systems to evolving economic realities, aligning with international standards while addressing domestic needs and priorities.

4.2. The financial accounting system in Algeria

The introduction of the SCF in Algerian companies starting in 2010 brought about a shift in accounting concepts. Consequently, upon implementing the SCF, managers were required to make decisions regarding the accounting options provided by this system. (Bensabeur-Slimane & Djafri, 2016). The FAS is defined as a structured framework designed to arrange financial information systematically, facilitating users in collecting, categorizing, evaluating, recording essential statistical data, and presenting accurate financial statements that truthfully depict a company's financial status, asset holdings, performance, and cash flow position at the conclusion of the fiscal period, as outlined in Article 03 of Law No. 07-11 dated November 25, 2007 (Miliani & Kameli, 2022).

The accounting reform initiative in Algeria had the objective of reshaping the landscape of accounting methodologies. This involved the establishment of a robust conceptual framework for accounting standards, uniformity in financial reporting, and the implementation of a standardized chart of accounts. These alterations were geared towards improving the comparability of financial statements, ensuring accessibility for all users, and presenting an authentic portrayal of entities' financial standings. Moreover, the revamped accounting system aimed to offer foreign investors and multinational corporations a more navigable and utilitarian platform for conducting financial analysis and making informed decisions (Miliani & Kameli, 2021).

The accounting reform in Algeria was a strategic effort to overhaul existing accounting practices. This overhaul included several key changes aimed at enhancing how financial information was handled and presented:

1. **Conceptual Framework:** The reform sought to establish a comprehensive conceptual framework. This framework served as a set of guiding principles to ensure consistency and coherence in accounting standards and practices. It laid down the foundational concepts and guidelines that shaped how financial information was recorded, reported, and interpreted.

2. **Standardized Chart of Accounts:** One of the pivotal aspects of the reform was the introduction of a standardized chart of accounts. This standardized structure provided a uniform way for organizations to classify and organize their financial transactions. It facilitated easier comparisons between different entities and improved the clarity and transparency of financial data.

3. **Financial Reporting Standards:** The reform aimed to set robust and internationally recognized accounting standards. These standards were designed to improve the quality and reliability of financial statements. By adhering to these standards, companies could ensure consistency, comparability, and accuracy in their financial reporting.

4. **Enhanced Comparability and Accessibility:** A primary goal of these changes was to make financial statements more comparable across entities and easily understandable for all users. By standardizing practices and reporting formats, stakeholders -both local and international- could more effectively analyze and interpret financial information. This increased transparency and trust in the reported financial positions of organizations.

5. **Support for Foreign Investors and Multinational Companies:** Implementing these reforms aimed to create a more welcoming environment for foreign investors and multinational corporations. By providing a clearer and more standardized financial system, these entities could more confidently analyze and make decisions based on the financial data presented, thereby encouraging investment and fostering economic growth (Bachiri, 2023).

Overall, these changes were intended to not only modernize accounting practices but also to align them with international standards, fostering transparency, trust, and accessibility in financial reporting while catering to the needs of both local and global stakeholders.

4.3. Why didn't Algeria apply IFRS?

Over time, international standards have undergone remarkable advancements, leading to a growing number of countries embracing IFRS and even transitioning from their national standards to achieve complete convergence with international norms. The global imperative for convergence has largely been driven by the forces of globalization. In line with this trend, Algeria implemented a new accounting and financial system in 2010 with the aim of attracting foreign direct investment. However, this system has faced criticism from accounting professionals in Algeria due to significant discrepancies observed in comparison to international standards (Abdelkrim, 2020).

Algeria's accounting system, rooted in international standards from 2005, has seen substantial divergence from evolving IAS and IFRS standards, creating a significant disparity. The lack of adoption of post-2005 international accounting changes has widened this gap. Despite the Algerian government's intent, starting in 2010, to align local accounting practices with IAS and IFRS, subsequent updates in international standards haven't been incorporated, maintaining the disparity. Consequently, the IASB regards Algeria as a non-adopter of IAS and IFRS, further emphasizing the substantial variance between Algerian accounting practices and international standards (Miliani & Kameli, 2022).

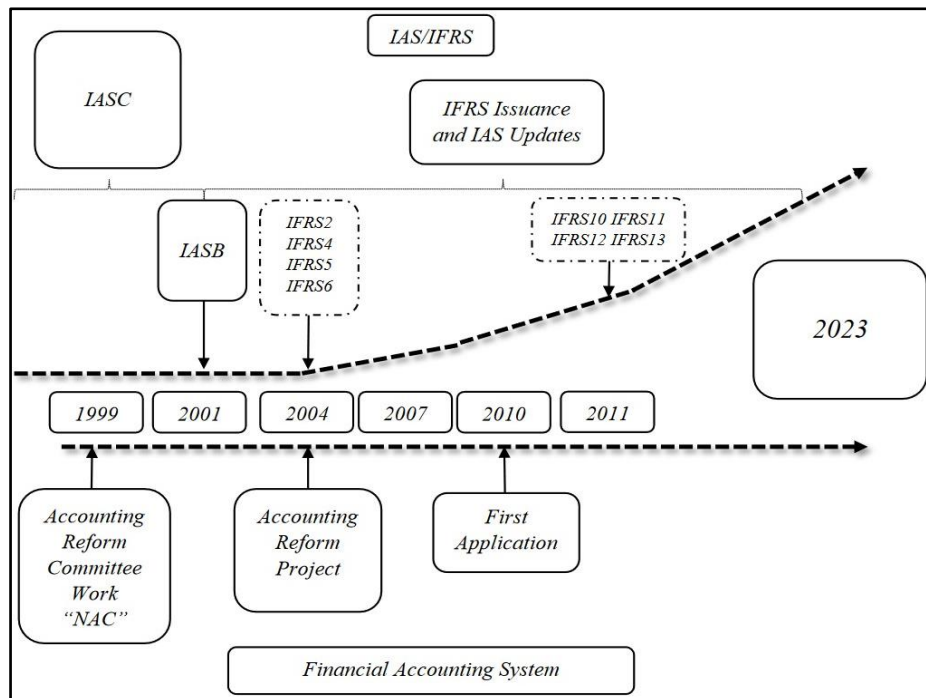


Figure 2: The Non-Updating Problem of the FAS

Source: Miliani & Kameli (2022) based on FAS and IAS/IFRS

The Algerian government's efforts to align the national accounting system with IAS and IFRS were characterized by a distinctly political nature. These reforms, largely steered by the finance ministry without substantial professional involvement or consideration of diverse insights, aimed to use accounting primarily for tax assessment purposes rather than leveraging it comprehensively for financial decision-making.

The specific economic, financial, and regulatory landscape of Algeria, along with cultural and educational factors, presented formidable obstacles to the seamless adoption and execution of IAS and IFRS. Key challenges surrounding this adoption emerged:

- The hurried assimilation and implementation of international standards without allowing ample time for adjustment and infrastructure development across legislative, educational, executive, and economic institutions.
- Insufficiently equipped financial departments in Algerian enterprises necessitated substantial enhancement to effectively implement IFRS.
- Resistance to change prevailed among many enterprises accustomed to the former accounting system, posing hurdles in transitioning to the new standards (Bouarar, 2017).

Algeria encountered numerous obstacles in implementing an accounting system inspired by IAS and IFRS:

- An underdeveloped financial market hindered effective implementation.
- Challenges in determining fair values of tangible fixed assets due to limited information availability and monopolistic practices in the real estate market, impacting accurate valuation.
- The absence of a comprehensive and credible national economic information system.
- Slow progress in formulating comprehensive accounting education content at universities and training centers.
- A prevailing narrow focus on accounting's technical facets without recognizing its broader benefits and potential impacts.

5. Conclusion

In conclusion, the challenges Algeria faces in fully adopting the IFRS and IAS are complex and multifaceted. While the adoption of IFRS has brought about significant improvements in transparency, accounting quality, and comparability of financial information globally, Algeria's current financial accounting system (SCF) remains only inspired by IAS, presenting disparities between international and local standards. Addressing these challenges necessitates careful consideration of Algeria's specific economic, financial, and regulatory landscape, along with cultural and educational factors. The revision of the Algerian financial accounting system must involve Algerian professionals who understand the unique needs and interests of local companies. Furthermore, a cautious approach is essential to avoid the pitfalls experienced during the initial adoption of the SCF, including rushed implementation and inadequate infrastructure. By acknowledging the evolving nature of international financial accounting standards and conducting thorough analyses, Algeria can find the right balance between progress and a well-considered, deliberate approach. Overcoming these obstacles requires comprehensive reforms that address regulatory, educational, and cultural dimensions while allowing sufficient time for adjustment and capacity-building.

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