I - General Introduction to Accounting

I.1 Origin and Concept of Accounting

I.1.1 The Emergence and Development of Accounting

Accounting appeared as a science since ancient times among the Italians, Greeks, ancient Egyptians, and Romans, where it existed in a simple form called *"reckoning"*, which involved recording revenues and expenses. The development of accounting can be summarized in three main stages:

I.1.1.1 First Stage: The Pre–Double-Entry Era

This stage began in the Middle Ages with the emergence of money. Merchants used to record all revenues and expenses using the single-entry system, then determine the result of transactions (profit or loss) over a given period.

I.1.1.2 Second Stage: The Double-Entry Era

This stage began in 1494 with the Italian scholar **Luca Pacioli**, who provided a detailed explanation of the double-entry system in his book *"Summa de Arithmetica, Geometria, Proportioni et Proportionalita."*

However, the double-entry system had actually been discovered earlier during the Islamic civilization. A manuscript titled *"Risala Mulkiyya al-Siyaqat,"* written in 1363 by **Abdullah ibn Muhammad ibn Kiyah al-Mazandarani**, revealed accounting practices used in the Islamic state, which were unknown in Europe before the 14th century. Thus, the development of accounting in Islamic jurisprudence preceded what most global writings assume.

I.1.1.3 Third Stage: The Post–Industrial Revolution Era

This stage began in 1776. The Industrial Revolution greatly contributed to the development of accounting due to the emergence of large companies that invested substantial capital. This period was marked by the separation of ownership from management, the rise of multinational corporations, and company mergers. Consequently, accounting evolved significantly and became a tool for measuring managerial efficiency and serving various societal groups. This led to the emergence of multiple branches of accounting, each serving a particular field.

I.2.1 The General Concept of Accounting

Accounting is both a **science and an art**:

- It is a *science* because it studies the principles and rules used to record, classify, and summarize economic operations, and extract results over a specific period.
- It is an *art* because it involves the practical application of these principles through technical methods used to monitor the activities of an entity (recording, classifying, and summarizing operations).

Accounting analyzes economic events, designs accounting systems, and supports management in planning, control, and decision-making.

The importance of accounting arises from the significance of the information it provides to stakeholders, including:

- **Owners and managers**: to assess performance and make sound decisions.
- **Investors**: to evaluate current or expected returns and managerial efficiency.
- **Creditors (lenders, suppliers)**: to ensure the ability of the entity to settle its obligations.
- **Government authorities**: for taxation, economic planning, and subsidy allocation.
- **Employees**: to understand the stability of their employment.
- **The public, researchers, and experts**: for research and various analyses.

I.2 Types of Accounting

Accounting can be viewed from the perspective of the entities that keep the records, and it is divided into:

I.2.1 Enterprise Accounting

Used in profit-oriented economic entities. It includes:

- **General (financial) accounting**: also called commercial, deep, or financial accounting.
- **Analytical (cost) accounting**: used to analyze activities, collect costs, and allocate them to products and services. It focuses on cost control and optimal resource utilization.
- **Budgetary (standard) accounting**: based on future estimated values, considered an extension of analytical accounting.

I.2.2 Public Accounting

This accounting is used in administrative institutions under the supervision of the state (municipalities, provinces, etc.). It involves the rational allocation of revenues as appropriations for expenditures and monitoring the annual budget.

I.2.3 National Accounting

Used by specialized agencies to evaluate the national economy through macroeconomic aggregates such as national income and national consumption.

Modern branches have also emerged (creative accounting, social accounting, environmental accounting, electronic accounting) as a result of global economic developments.

I.3 Definition of Financial Accounting

Financial accounting is considered a type of enterprise accounting. The most common definition in Algeria is found in Article 3 of Law 07/11 (25/11/2007) on the financial accounting system:

"Financial accounting is a system for organizing financial information that allows the storage, classification, evaluation, and recording of numerical basic data, and the presentation of financial statements that reflect a true and fair image of the financial position, assets, performance, and treasury situation of the entity at the end of the fiscal year."

From this definition, three points are derived:

1. The **inputs** of this system are numerical data measurable in monetary units.
2. The **outputs** are the financial statements that provide a true and fair view of the entity's financial situation.
3. The system aims to measure the entity's performance through the income statement and treasury situation through the cash flow statement.

I.4 Objectives and Application Scope of Financial Accounting

I.4.1 Objectives

Financial accounting aims to:

- Provide a clear and transparent picture of the financial situation and performance of the institution.
- Determine the profit or loss at the end of each fiscal year.
- Assist management in decision-making.
- Support the implementation of state tax and developmental policies.
- Serve as reliable evidence in resolving legal disputes.

I.4.2 Entities Required to Maintain Financial Accounting

According to Article 4 of Law 07/11, the following must keep financial accounts:

- Companies subject to commercial law.
- Cooperatives.

- Natural or legal persons producing commercial or non-commercial goods or services through recurring activities.
- Any person required to do so by legal or regulatory provisions.

Article 5 also states that small entities with limited turnover, workforce, and activity may keep simplified financial accounting.

I.5 Accounting Assumptions and Principles

I.5.1 Accounting Assumptions

These are fundamental premises that cannot be proven but form the conceptual basis of accounting. They include:

- **Accounting entity assumption**
- **Going concern assumption**
- **Monetary unit assumption**
- **Periodicity (independence of accounting periods)**

I.5.2 General Accounting Principles

These principles, based on the assumptions, guide accounting practice and can be revised as commercial operations evolve. The main principles include:

- The balance principle
- Historical cost
- Double-entry principle
- Consistency
- Full disclosure
- Objectivity
- Annuality
- Prudence (conservatism)

I.6 Assumptions and Principles of the Algerian Financial Accounting System (FAS)

I.6.1 Assumptions

The Algerian financial accounting system is based on two assumptions:

- **Going concern**
- **Accrual accounting**

I.6.2 Principles

The system adopts internationally recognized principles, including:

- Historical cost
- No offsetting (no compensating between assets and liabilities, or between expenses and revenues unless legally justified)
- Consistency of accounting methods
- Independence of the financial entity
- Materiality
- Periodicity
- Independence of accounting periods
- No modification of opening balances
- Monetary unit assumption