

Actualités

The New Accounting and Financial System

KPMG Algérie

Implementing the New Accounting and Financial System (AFS)

Part II – The Accounting System and the Computer Systems “The Secret to Good Management: Anticipation”



As we discussed in the introduction and in our first article, the main criterion for success of the project is its careful planning and prudent management of constraints.

Companies are only required by law to file their 2009 restated accounts under the new system by April 2011, which will let enough time to study the SCF/IFRS impacts, improve training, etc.

However, it sets an absolute deadline, which, in practical terms for future accounts, cannot be missed: 2010 statements should be filed under the new system from 01.01.2010 and on this front, there are no exceptions; except to indefinitely postpone the start of treatment of the 2010 current operations, which is hardly conceivable.

To avoid any major inconvenience, companies must prepare themselves to get to 01.01.2010 with an operational chart of accounts under the new system, which, in practical terms, means:

- working on the chart of accounts,
- working on accounting software.

Working on the chart of accounts

The general issues concerning the development of the chart of accounts have been partly developed in our previous article. Therefore, we shall not go over them again in this article.

The first step in the development plan in the target accounts as to adopt the new model as defined by law.

Adopting the new chart of accounts

To do this, the most obvious approach is to study in detail the text on the new system which includes numerous details on:

- accounts with account codes up to 3 digits,
- how the accounts work,
- the recognition methods for certain specific transactions.

Current texts however, lack certain specifics:

- There is no set model for accounts that include 4- and 5- digit codes,
- The logic behind the coding system (the meaning of "8", "9", etc.) is not explained,
- Changes in how the accounts work are neither highly developed nor necessarily comprehensive.

Also, to prepare properly, a little research and foresight are necessary. This will however not be difficult since, as we noted in the previous section, the new Algerian chart of accounts rather closely resembles the system currently in force in France.

To understand the logic and structure of the new Algerian accounting system, one can then freely draw inspiration from the numerous free or paid publications on the current French accounting system, which

describe in great detail how to treat and account for almost all routine transactions with which an Algerian company may be faced.

This is, of course, only a temporary solution and it is hoped that practical and accurate documentation will be developed in Algeria and for Algerian accountants within a few months.

Once armed with legal documents and the complementary documentation mentioned above, one may more systematically examine and compare the old and new accounts names and map them.

Mapping the old and new accounts

In the previous section, we discouraged the use of automatic mapping tools that are currently offered on the Algerian market to facilitate the transition to the new system.

These tools function on the basis of two prerequisite conditions which are not necessarily verified in practice:

- that the company's accounts under the old system contain all elements exactly as provided by law,
- that each old account will have a match under the new system.

If a company's accounts have not been classified under the old system as they should have or an account includes several operations that must be treated separately under the new system, the automated tools will not function correctly.

The safest solution is, in our opinion, a complete manual remapping:

- examine existing accounts one by one,
- examine the contents of each account and analyze the balance
- determine under which new account, under the new system the balance should go,

- conclude and finalize the choice.

Incidentally, in many cases, one may observe that:

- that accounts must be cleared,
- certain old accounts contain several balances that were not necessarily anticipated at the outset,
- certain balances from different accounts under the old system must be consolidated under a single new account, or vice versa.

Obviously, this approach is more laborious than to work the machine, but it will:

- determine the current contents of accounts with precision,
- establish a final account mapping that is more accurate and adapted to the specific needs of the company in a way that no existing software can.

That said, it does not mean that a huge volume of work is involved as many simple accounts (clients, suppliers, etc.) have a specific content and an obvious corresponding match under the new system. The detailed analysis applies primarily to accounts that combine several different balances (typically reserves, accruals, etc.). For these accounts, the analysis will be more or less difficult depending on the depth of analyses and the existing reconciliation methods.

In fact, for this mapping, we encounter exactly the difficulties we would in an automated language translation:

- software may help but it often yields unsatisfactory results,
- many words or simple sentences may be easy to translate,
- difficulties arise from long or complex sentences.

The same will apply to elaborating the target chart of accounts.

Establishing the target chart of accounts

As indicated earlier, there will be no direct one to one correspondence between an old and a new account.

The target chart of accounts should be established at 2 levels:

- A targeted chart of accounts with the legally- required 3-digit accounting code structure, plus a 4th digit to support company operations (e.g. to detail VAT accounts, property accounts etc. corresponding to the company's specific needs),

- A mapping that handles both accounts with a one to one correspondence and those with correspondences for accounts that have to be consolidated or split.

With 4- or even 5-digit account codes, the company may have to take into account the needs of its management control, especially if accounts for each site or section, etc. are kept. The procedures for coding the detailed levels of the existing nomenclature may be kept as they are. The new accounting system does not provide any specific details on the subject.

Once the accounting plan has been established and confirmed, it should be communicated to all departments. The chart of accounts, if adopted by the Chief Financial Officer (CFO) or the Finance Director, will in fact be used by a broad public of accountants or public utilities. So that accountants and operators adapt quickly enough, companies will have to develop updated tables of imputations and communicate them to all concerned personnel and clients.

The specific case of accounts 38/603

When the new chart of accounts is examined in detail, certain novelties crop up in accounts 38 and 603.

The new text maintains in essence the principle of account "38" but breaks down the current "60 - Consumption" into accounts "60xxx - Purchases" and "603 - Change in inventory. The "60 - Consumption" item is such a standard feature in Algerian accounting that the new provision can be quite baffling.

In fact, the technical separation in "consumption" between "purchases" and "changes in inventory" is required of preparation of certain summary financial statements, including cash flow positions.

If the consumption of the company is properly calculated, and in any case, the consumptions should equal purchases and inventory changes, journalization should not be particularly difficult. Otherwise, the entries will be a problem. Troubleshooting would involve understanding what anomaly occurred in inventory and consumption.

Conclusion

Many Algerian companies are relatively worried about the issue of mapping and would really like that this step be carried out as quickly and easily as possible (possibly within a few hours).

This will in fact be possible if the person in charge of the conversion has a sufficient understanding of the new accounting plan (hence the need for documentation and a minimum of upstream research), if the company is simple enough (activity, reporting requirements) and if the analysis of existing accounts is sufficiently clear (accounts labelled and analyzed).

Companies with complex accounting needs, require commitment accounting or whose accounts have not been insufficiently analyzed; experience a longer mapping process that can last a week or more.

Therefore the "secret to good management – anticipation", as suggested, would indeed require that companies begin the process of finalizing the chart of accounts quickly, from the start of September 2009.

Especially if it is involved in the final stage of the subproject "Chart of Accounts", it would also mark the starting point of the sub-project "accounting software".

Work on the software

The second major problem to deal with the return in relation to the CFS is to prepare the development of the software or resetting.

As we have explained in our previous articles, software development needs will be very different depending on each company or software already in use.

Therefore there is no "one-size-fits-all" solution. This issue should be resolved on a case by case in each company, by the Financial Director or, at the very least, the Information Systems Director.

Problem number 1: the software must be able to tackle the new chart of accounts

The changes made between the old and new accounting systems in terms of chart of accounts are not complicated and the two remain basically quite similar.

However, many changes have been made in account numbers and in subledgers or auxiliary balances.

In practice, must therefore, two things must be checked:

- Can overall changes be made to the chart of accounts?
- Will the switch entail more specific problems for accounts with subsidiaries or interfaces?

The answer will depend on the software already in use and their logical structure:

- Modern software - ERP or Software packages - are generally flexible and associate records that will not change (assets, purchasing data, etc.) with an account number that may be reset.
- Older software - sometimes specifically designed around the old accounting system, which in some cases, are only operational on the old accounts and for which changing the account numbers poses problems or can dephase auxiliary balances and subledgers.

The priority is to conduct a preliminary analysis to establish:

- whether the software should be reset, updated or changed,
- an idea of cost and time incurred by the software changes.

In practice, three solutions exist:

- A simple resetting or reparametrization, which will not substantially change the database, is fast and will correctly process new accounting entries.
- A software renewal or update, if the editor still exists and has developed a version to tackle the new system, which

can be undertaken with relative ease, without significant impact on the database and new entries.

- A change of software, with likely impacts in terms of interfaces and opening entries.

Obviously, costs, delays and difficulties in terms of starting the new system will be highly variable depending on the solution is ultimately adopted (setup, update, change).

Problem number 2: the software should generate new versions of financial statements and, more importantly, adhere to the new computerized accounting rules

The second problem is related to the (recent) publication of the Decree on computerized accounting. The accounting system, in addition to its evolution towards the new chart of accounts, will be submitted to new obligations in terms of transparency and "auditability" and will have to support the new models of financial statements.

Objectively, this text lacks clarity and requires prior analysis. If interpreted literally, it renders most existing accounting software "obsolete", particularly on record traceability and on financial statements formats.

In this section, we will only look the preparation of financial statements. Once again, 3 possibilities are available to tackle the problem:

- current software does not process summary statements, or only processes previous versions of the summary statements,
- it processes reconfigurable summary statements,

- it processes the new version of the statements directly.

The third case is relatively rare, but within a matter of weeks or months, the most common software editors (Sage, PC Compta, etc.) should be able to provide standard options to prepare automatically new models of financial statements.

In this case, the company acquires the updates and the case is closed.

When the existing software has a configuration option for financial statements preparation, quite common option on modern mid-sized software solutions, it proceeds to reconfigure the statements, either internally or with the assistance of an external accountant firm. The reconfiguration is not difficult. It simply has to be planned and executed.

In the last case, if the software does not produce a balance, it either has to be changed or financial statements have to be prepared manually. This preparation manual, which is common at present, will probably continue until the publication of the next decrees or as long as it is obvious that all businesses will not be able to computerize their financial statements as quickly as required by legislation.

As with the chart of accounts, the problem of the preparation of financial statements must be managed immediately taking into account:

- current software possibilities,
- future software updates (through contact with the editor),
- future needs, particularly if software has to be changed.

Conclusion of the preparatory work concerning software

For the vast majority of companies, software is not a major source of worry, since existing solutions prove sufficiently modern and flexible.

However, for businesses with dated software without adaptation options, the transition could prove to be tricky, presenting:

- the need to purchase new accounting software,
- delay and difficulty to implement quickly this new software,
- standard problems regarding opening entries.

The deadlines in the latter case will probably not be achieved by 01.01.2010, and these companies will probably, inevitably, evolve gradually over 2010 or even 2011 – in other words after the deadline set by law.

For companies only requiring an update or a reconfiguration, deadlines and issuing financial statements under the new system should be much more feasible and operational by early 2010.

With “anticipation” as the operational word, we recommend that all companies carry out a software analysis end September / early October to:

- anticipate potential problems,
- to plan the intervention of the IT department or software vendor.

Needless to say, the months ahead should be particularly busy for accounting software vendors and integrators. Therefore, the quicker companies identify their needs, the better they will be able to schedule a date and be best served.

Summary

For your company may normally be prepared to meet the requirements of the new system by 01.01.2010, there are two aspects to manage by early September and before the end of Ramadan:

- start studying the chart of accounts which should be outlined by the end of October and finalized by November.
- making an "analysis" of the software to see if it supports the new system, decide on necessary changes, programming and planning.

By October / November, the chart of accounts should be finalized, therefore enabling IT or your software vendor, to complete their tasks.

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