

Accounting for long-term contracts in Algerian Contracting Companies: Practical reality and future challenges

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Abstract---This study aims to shed light on the theoretical and practical concepts related to long-term contracts concluded at the level of contracting companies, through what the financial accounting system (SCF) is based on, on the one hand, as well as international accounting standards, on the other hand. This research starts within the theoretical framework of defining contracts and clarifying their characteristics, in addition to the accounting treatment. In contrast, the study relies on the practical framework of the descriptive analytical approach. The relevant laws are analyzed and the most important results are drawn that contribute to improving the performance of accounting practices of contracting companies within the Algerian business environment, which has highlighted the existence of challenges related to the clarity of legal texts (accounting and taxation) in addition to practical application in a business environment characterized by instability and slowness in completing projects with long-term contract.

Keywords---Long-term contracts, contracting companies, financial accounting system, tax law.

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Introduction

Contracting activity is one of the branches of activity that contributes significantly to the development of the economy. Examples of this include projects such as (building construction, constructing bridges, establishing schools and hospitals, etc.). The contracting activity has been the subject of many discussions and accounting studies that were conducted specifically to serve this branch of activity to arrive at the nature of profitability within these activities as well as the characteristics specific to this activity, Which is reflected in the approved accounting system, so we find in accounting a difference of viewpoints about the appropriate accounting structure and what the accounting system in this type of company should be based on, and the method of accounting registration differed according to the method by which revenues are determined, and the structure of accounts in contracting companies was coordinated in two ways, the first according to the method of completion percentages (achievement) and a second way, the structure of accounts according to the method of expired contracts.

The financial accounting system has been concerned from the beginning with improving the accounting treatment of long-term contracts by addressing them in paragraphs 133-1, 133-2 and 133-3 of the decision dated July 26, 2008 derived from the International Accounting Standard IAS 11, Or through the methodological note for the initial application of the SCF related to long-term contracts issued in 2011, where the main problem facing contracting companies in particular is highlighted as to when revenue is recognized and how it can be measured reliably, This raises the following main question: **What are the realities and challenges of accounting for long-term contracts in Algerian contracting companies?**

In this study, we will discuss the theoretical and practical framework according to what the financial accounting system includes regarding long-term contracts in contracting companies, Especially since the financial accounting system is derived from international accounting standards that are witnessing continuous development, as is the case with the issuance of International Standard IFRS 15 (Revenue from Contracts with Customers) as an alternative to Standard IAS 11 (Construction Contracts).

Sub-questions:

- How are revenues recognized by Algerian contracting companies?
- What are the legal difficulties and business environment challenges facing Algerian contracting companies?

Study hypotheses:

- To recognise revenues in long-term contracts, the financial accounting system uses the percentage of progress method, which is most commonly used in Algerian contracting companies.
- Algerian contracting companies face difficulties and challenges when implementing long-term contract procedures due to the multiplicity of laws and business environment conditions.

Importance of the study:

The study derives its importance from the unique nature of the Algerian situation, given the significant expansion of infrastructure in recent years and the significant increase in the volume of construction, often financed by the state budget. National contracting companies control most contracts, qualifying them to become a fundamental pillar of the national economy amid growing infrastructure development programs.

Study objectives:

By examining the legal framework that governs long-term contracts and determining the environmental issues (inflation, tax laws, and administrative complexities) that these companies face in their accounting practices, this study seeks to determine the accounting practices of Algerian contracting

Study Methodology:

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Previous studies:

- **Zainab Abbas Hamidi:** The study examined the impact of implementing IFRS 15 on earnings management in construction contracting companies listed on the Iraq Stock Exchange. The researcher adopted an inductive approach related to analysing previous studies and conducting a study of contract data from three local private limited contracting companies for the period 2014-2016. The results of the study and analysis of the data of the sample companies showed that their management practices earnings management. Therefore, it was recommended that local regulatory bodies oblige companies listed on the Iraq Stock Exchange to recognise revenue following the requirements of IFRS 15. (Hamidi, 2023, pp. 538-556)
- **Ben Saleh Boujemaa:** It addressed the study of the compatibility between the requirements of the financial accounting system and the standard of revenue from contracts with customers IFRS 15 with regard to the construction and public works sector in Algeria, through comparison between the methods of recognition, measurement and accounting disclosure for construction and public works contracts. The study concluded that there are fundamental differences between the requirements of the financial accounting system and the IFRS 15 standard in the framework of achieving the requirements of the construction and public works sector in Algeria. (Ben Saleh Boujemaa, 2022, pp. 241-260)
- **Dardouba Abdelhaq, Ben Atallah Sabrina:** The study aimed to shed light on the difference between the financial accounting system and the international accounting reference in measuring and disclosing revenues from long-term contracts, and to highlight the requirements for updating the financial accounting system after more than 10 years of its application. The study concluded that the international accounting reference witnessed several amendments, unlike the financial accounting system, which did not undergo any amendments, which created many points of difference that led to incompatibility, which calls for activating the role of the National Accounting Council and issuing local accounting standards compatible with the international accounting reference. (Dardouba Abdelhaq & , Ben Atallah Sabrina, 2022, pp. 254-267)
- **Hanan Ahmed Al-Junaidi:** The study addressed the impact of applying Egyptian Accounting Standard No. 48 on revenue from contracts with customers on improving the quality of accounting information, which replaced Egyptian Accounting Standard No. 11 on revenue and No. 8 on construction contracts, under the International Financial Reporting Standard IFRS 15. To achieve the study's objective, the researcher conducted a field study that included 150 individuals from the study sample, consisting of faculty members, accountants in companies, internal auditors, and auditors. The results of the field study concluded that there is a positive, significant impact of applying Egyptian Accounting Standard No. 48 on the quality of accounting information, in terms of improving its characteristics represented by relevance, reliability, comparability, and understandability. (Hanan Ahmed Al-Junaidi, 2021, pp. 1-38).
- **Youssef Abdullah Al-Ahmad:** The aim of this study is to study the impact of applying accounting measurement alternatives on the profitability of medium- and long-term contracts, and to identify the measurement alternative that best suits the nature of long- and medium-term contracts. To achieve this goal, the researcher conducted a practical application on a medium-term contract to sell a production line based on monthly payments in a Syrian industrial company. The researcher also relied on data provided by the Central Bureau of Statistics website regarding the change in the purchasing power of

the monetary unit between 2015 and 2018, in addition to visiting some private banks to learn about interest rates on medium-term deposits. Several results were reached, the most important of which are: The adoption of the historical cost alternative in measuring the profitability of medium- and long-term contracts is due to the preference for reliability over convenience. Furthermore, the net present value alternative is the alternative most consistent with the nature of medium- and long-term contracts. (Al-Ahmad, 2021, pp. 45-74).

- **Malika Ben Ali, Labidi Al-Mahawat** The study aims to demonstrate the extent of compatibility of accounting for long-term contracts according to SCF with what is included in the IFRS 15 standard, by clarifying the accounting treatment contracts according for Long-Term Contracts to SCF and presenting the accounting treatment contracts for Long-Term Contracts according to IFRS 15. The study concluded that there are points of agreement and points of difference between SCF and IFRS 15 with regard to futures contracts by conducting a systematic comparison between them, in order to finally present proposals, including contributing to the development of accounting contracts for Long-Term Contracts in Algeria in a manner consistent with IFRS 15. (Malika & Al-Mahouat, 2020, pp. 321-340)

- **Baktash Fatiha:** This study addresses the issue of long-term contracts from the legal and tax perspectives under the Financial Accounting System (SCF). It is one of the topics of increasing importance in the contracting and construction sector, due to its complex nature and the long duration of its implementation. A descriptive analytical approach was adopted through analyzing the legal and regulatory rules, in addition to presenting the accounting practices in force and comparing them with the international standard IAS 11. The study concluded that in Algeria there is a complete absence of the legal aspect of contracts and there are no rules and legislative texts governing them.

(Baktash Fatiha, 2014, pp. 81-93)

- **Nabil Abdel Raouf Ibrahim:** The study addressed the development of tax accounting for long-term contracts in line with IFRS 15, issued by the International Accounting Standards Board, in a manner that achieves tax justice. The researcher conducted a study to measure profits from long-term contracts consistent with the latest version. The proposed tax accounting method was applied to a sample of contracting companies listed on the Egyptian Stock Exchange. The results of the application revealed a reduction in the tax burden compared to the previous method, such as the tax law. A field study was also conducted to determine the feasibility of applying the proposed tax accounting method to actual profits rather than estimated profits. The results of the study revealed that the study's hypotheses were rejected, indicating the need to develop tax accounting for long-term contracts. (Ibrahim:, 2014, pp. 59-112)

Previous studies have shown that IFRS 15 is a qualitative addition to improving accounting disclosure and the quality of accounting information, especially concerning long-term contracts. Previous studies have also demonstrated a gap between the financial accounting system and international accounting standards, which calls for activating the role of regulatory bodies to update accounting and legal frameworks to keep pace with modern standards.

I. Long-term contracts according to the financial accounting system:

1. The Concept of Long-Term Contracts:

According to the financial accounting system, long-term contracts are contracts that include the delivery of a good, service, or a group of goods or services, with commencement and completion dates occurring in different fiscal years. These contracts may include: (Financial accounting system, 2009, p. 18)

- Construction contracts;
- Environmental asset repair contracts;
- Service provision contracts.

Based on the contract pricing method and the determination of contract revenue for the contractor, long-term contracts are divided into:

- **Fixed-price contract:** It is a contracting contract under which the contractor accepts to implement the contract in exchange for a specific price or fixed rate for each unit of product. Sometimes the contract may include modification terms in light of the actual cost.

- **Cost plus commission contract:** This is a contracting contract whereby the contractor recovers the permitted or specified costs in addition to a percentage of those costs or a fixed fee (fixed commission) (Mohsen Babqi, 2013, p. 74).

According to Paragraph 133-2 of the Financial Accounting System, the costs and results of long-term contract operations are recorded according to the progress of the operation by issuing a sequential accounting result based on the completion rate.

(Financial accounting system, 2009, p. 18).

According to Paragraph 133-3 of the Financial Accounting System, if the entity's processing system or the nature of the contract does not permit the application of the progress method in accounting, or if the final outcome of the contract cannot be accurately estimated, it is acceptable, for simplicity's sake, to record only an amount equal to the amount of the proven costs whose recovery is probable. (Financial accounting system, 2009, p. 18).

2. Recognition of outcomes and burdens:

- **Contract deliverables:** ((IASCA), 2008, p. 1054).

Contract deliverables must include the initial amount of deliverables agreed upon in the contract, modifications to the contract work, and claims and incentives paid if the deliverables are likely to be achieved and can be reliably assessed.

- **Modifications:** These are orders issued by the client to the contracting company, which modify the scope of work and may result in an increase or decrease in contract revenue.
- **Claims:** These are amounts the contracting company seeks to collect from the client or another party as cost recovery that were not included in the contract price. These may arise, for example, from the client causing work delays or errors in the design or specifications.
- **Incentives:** Additional amounts paid to the contracting company as a result of meeting or exceeding certain performance standards, such as when the contract stipulates that the contractor is entitled to incentives if the contractor completes earlier than agreed.

- **Contract costs:** ((IASCA), 2008, pp. 1055-1056):

Contract costs should include direct costs associated with the contract in question, costs attributable to the contract activity in general that can be allocated to the contract, and any other costs that can be specifically attributed to the client under the terms of the contract.

- **Costs directly related to the specific contract:** the cost of on-site personnel, including supervision costs; the cost of materials used in the contract; the depreciation of machinery and equipment used in the contract; the cost of transporting fixed assets and materials to and from the work site; the cost of engineering designs directly related to the contract; the cost of leasing machinery and equipment; the estimated costs of warranty work, including anticipated costs; and claims by third parties.

These costs may be reduced by incidental revenues not included in contract revenue, such as the sale of excess materials and profits from the sale of machinery and equipment at the end of the contract.

- **Costs related to general contract activity that can be allocated to the contract:** Insurance, design costs not related to a specific contract, and indirect construction costs such as the costs of preparing payroll for contractor employees.

- These costs are allocated systematically across all costs with similar characteristics, and the allocation process is based on the normal level of construction activity.

- **Other costs that may be charged to the client under the contract:** Some include general administrative costs or development costs that the contract stipulates are to be reimbursed from the customer, and costs that cannot be attributed to the contract activity or allocated to the contract. Examples of these costs include:

- General administrative costs for which the contract does not explicitly stipulate their recovery;
- Selling costs;

- Research and development costs for which the contract does not stipulate their recovery;
- Depreciation costs for idle machinery and equipment not used in a specific contract.

3. Consolidation and Segmentation of Long-Term Contracts ((Hamidat, Juma; Abu Nassar, Muhammad, 2012, p. 184):

In some cases, a contractor signs a long-term contract or contracts with a single client, involving the construction of more than one asset. The general rule for the requirements of the International Accounting Standard is to treat each asset in the contract separately. However, in some limited cases, the standard must be applied to the group of assets in the contract or contracts together to reflect the economic substance of the contract or group of contracts.

When a contract covers several assets, the construction of each asset must be treated as a separate construction contract if any of the following conditions exist:

- Separate bids are submitted for each asset from the other assets.
- Each asset is subject to a separate negotiation process, and the client can accept or reject each asset individually.
- Revenue and costs for each asset can be identified separately.
- A group of contracts, whether for a single client or several, can be considered a single construction contract if:
- The group of contracts is negotiated as a single transaction.
- The contracts were so closely interconnected that they could be considered a single contract.
- The contracts were completed simultaneously, in parallel, or a continuous and sequential sequence, meaning that a particular phase was not completed until a previous phase had been completed.

4. Determining the outcome of the contract:

The financial accounting system, based on International Accounting Standard (IAS 11), has identified two methods for dealing with these long-term contracts.

- **Percentage of Completion Method:** Under this method, contract revenues and costs are distributed or allocated to the accounting periods during which the contract is executed, at a rate commensurate with the value of the work completed during that period (i.e., as a percentage). This method is characterized by its compatibility with the accrual principle and the matching principle of revenues with expenses, and thus provides useful information about the extent of contract activity and the level of performance (Muhammad Matar, Enaam Zuwailf, 2008, p. 20). From a tax perspective, it fairly distributes the tax burden over the years during which the contract is executed. However, the drawback of this method is that the profits allocated according to it to the accounting periods during which the contract is executed are not fixed or certain, but are subject to the risk of non-realization due to potential changes in contract expenses that may occur in the future, or due to the client's inability to fully meet its obligations to the contractor.

Among the most important accounting problems that arise when using this method are determining the percentage of completion accurately and allocating contract profits and costs to the accounting periods with the greatest possible fairness and objectivity. This method relies on the ability to estimate the outcome at completion (the outcome at completion is reliably estimated) and is based on (Juma, Hawam, 2010, p. 168) :

- The ability to clearly determine the total amount of contract deliverables;
- The ability to determine the total amount of costs charged to the contract;
- The presence of management tools, analytical accounting, and internal control that allow for the establishment and review of progress, and estimates of costs and financial outcomes (Hamidat, Juma; Abu Nassar, Muhammad, 2012, p. 193).

- **Completed Contracts Method:** According to this method, no part of the revenue is recognized until the contract is completed. All costs related to implementing the contract during the implementation period are accumulated in an account called "work in progress," which appears on the balance sheet. As is clear, this method results in the full recognition of revenue and the full gross profit related to the contract in the final year of contract implementation. Consequently, the final year alone benefits from contract revenue. For this reason, the percentage of completion method is considered a better basis for recognizing revenue from long-term contracts. The primary advantage of the completed contract method is that the calculation of revenue and gross profit related to contracts is based on actual data rather than estimated data, as is the case with the percentage of completion method (Matar & Zuwailf, 2008, p. 38) .

The two methods yield the same overall result; the only difference lies in the distribution of this result over the relevant periods.

- **Choosing an accounting method:** The choice of accounting method for long-term contracts depends on the contractor's perception of uncertainty regarding the accuracy of contract cost and revenue estimates. In some cases, the contractor may decide that the level of uncertainty resulting from changes in business conditions makes recovering costs from the employer, or the realization of revenue, contingent upon additional negotiations, or a significant inherent problem in estimating, which leads to the use of the completed contracts method. In other cases, it may be easier to rely on the accuracy of estimating the value of work completed for some or all contracts. Therefore, the percentage of progress method may be used in accounting entries.

A contractor may use both methods simultaneously for different contracts. When a contractor uses a particular accounting method for a particular contract, he must continue to apply that method for all other similar contracts. In addition to the uncertainty considerations that the contractor faces in estimating contract costs and revenues, predetermined criteria may be used to determine the accounting method that he will apply to long-term contracts. For example, the Completed Contracts Method uses the expiring contracts method for contracts whose value is less than a certain amount or whose completion is less than a certain period, even if the contract results can be accurately estimated. The accounting method that the contractor applies, as well as the criteria that he uses as a basis for choosing these methods, are accounting policies that must be followed consistently.

II. Accounting in Algerian contracting companies:

1. The Legal Environment of Contracting Companies (Ahmed Qandouz, 2020, pp. 20-21):

Contracting activity is the activity through which construction, building, infrastructure, and other various construction projects are implemented. According to Article 549 of the Algerian Civil Code, contracting activity is a contract by which one of the contracting parties undertakes to manufacture something or perform a work in exchange for a fee agreed upon by the other contracting party (Algerian Civil Code, 2007, p. 90). Article 2 of the Commercial Code mentions several types of contracting. It stipulates that, in addition to the category of individual commercial activities. There is another category of activities that are not considered commercial unless they are carried out as a contract. In other words, the important thing here is the organisational form by which the work is carried out, as it is an entity whose purpose is to achieve these works, and this repetition extends through material and moral means.

According to Article 2 of Public Procurement Law No. 23/12, which sets out the general rules relating to public procurement, public procurement is a written contract concluded, for a fee, by the public purchaser (known as the contracting authority) with one or more economic operators (known as the contracting operator) to meet the contracting authority's needs in the field of works, supplies, services, and studies, in accordance with the stipulated conditions.

Public procurement is concluded according to the following procedures:

- Request for proposals, which constitutes the general rule;

- Negotiation procedures, which constitutes the exception.

What is noteworthy is the important role played by this sector in national economic activity, according to the Bank of Algeria's 2022 : (Bank of Algeria, 2023, p. 27)

- The value added in terms of volume in the construction, public works and irrigation sector decreased slightly in 2022, recording a growth of 3.3% compared to 4.7% in the previous year. Consequently, the share of this sector in current GDP increased to 10.5% in 2022 compared to 11.2% in 2021.
- Housing deliveries reached 245,000 housing units in 2022, compared to 226,900 housing units in 2021. This increase included both subsidized housing and free promotional housing types, with subsidized housing deliveries increasing by 32% compared to 11.4 % in 2021, and free promotional housing deliveries by 39.1% compared to 8.47% in 2021.
- In addition, deliveries of public housing and social housing in 2022 amounted to 5,000 public housing units, 24 600 social housing units, and self-construction amounted to 4,800 units.

The economic indicators mentioned above highlight that most projects span more than one fiscal year. Therefore, it is important to adopt accurate accounting procedures for revenue recognition especially in light of the growth in public projects and the multiple sources of funding for them.

2. Accounting and tax specifications for contracting companies:

The accounting and taxation of contracting companies have specific features that must be taken into account to produce financial statements containing sufficient and relevant information, facilitating their use by various users without the need to provide additional information upon request. Among these features, it is worth noting. (djouimaa, 2018, p. 32):

- The operating cycle often ranges from 24 to 36 months (at least);
- Labor management: fixed-term contracts, transfers between sites, work-related accidents;
- The fragmentation of their activities due to the multiplicity of markets and, consequently, the multiplicity of locations, which requires effective logistical and administrative control;
- The large gap between collections and expenditures forces companies to resort to various forms of credit: banks, the Public Procurement Guarantee Fund (CGMP), and cash contributions from partners;
- Joint implementation with other companies, which requires sharing of products and costs (groupements);
- Issuing advance or specific installment invoices directed to public administrations (works situations);
- Taking into account and monitoring insurance deductions that require special accounting treatment.
- Mandatory membership in CACOBATPH (National Fund for Paid Holidays and Unemployment Due to Bad Weather in the Construction, Public Works, and Irrigation Sectors), which requires special obligations and accounting treatment;
- The specificity of the event that creates both the VAT (Value Added Tax) and the TAP (Professional Activity Tax);
- Restrictions related to implementation processes associated with the use of the progress method.

A noticeable concern in the national business environment is the difficulty facing accounting managers in this category of companies, which lies in the difficulty of reconciling accounting and tax aspects.

3. Tax Difficulties for Contracting Companies:

Accountants in contracting companies face difficulty in reconciling accounting and tax aspects, especially since, according to Article 6 of the 2009 Supplementary Finance Law and Article 141 bis 2 of the 2024 Direct Taxes and Similar Fees Law, companies must adhere to the definitions stipulated in the financial accounting system, taking into account that they do not conflict with the tax rules applicable to

the tax base. According to Article 140, Paragraph 3 of the Direct Tax Law, the advance percentage method must be used to determine taxable profits, according to: "The taxable profit for long-term contracts related to the completion of materials, services, or a group of materials or services, the implementation of which extends over at least two (2) accounting periods or fiscal years, and acquired exclusively according to the advance accounting method, is independent of the methods adopted by the company in this area, regardless of the type of contract, whether lump sum or managed. This is acceptable, provided that management tools, a cost accounting system, and internal control are in place that allow for this. Taking into account the percentage of advance payment and reviewing the estimates of burdens, outcomes, and results, in line with the advance payment (General Directorate of Taxes, 2021, p. 32), it is concluded that:

- The progress method is the sole method for determining taxable profits for long-term contracts.
- Tax legislation does not provide any special provisions regarding the definitions and concepts related to the method for calculating the percentage of completion. Therefore, the definitions and concepts stipulated in the accounting system, as well as the accounting rules related to the application of this method, are acceptable from a tax perspective.

Paragraph 3 of Article 140 introduces additional concepts compared to the accounting rules related to the category of contracts, whether they are unpaid or non-cash. This requires the presence of management tools, a cost accounting system, and internal control.

Tax legislation has been aligned with the accounting rules regarding the conditions for applying the percentage of completion method to determine the tax result. Regarding the linkage of revenues and expenses related to long-term contracts, Article 140-3 of the Direct Taxes and Similar Taxes Law stipulates that the latter must be implemented exclusively according to the percentage of completion method, which results in the recognition of profit as the progress of the operation. The tax legislation also rejects accounting using the completion method to determine tax profit.

- Under the progress method, the contract revenues and costs are distributed or allocated to the accounting periods in which it is implemented, in a proportion that is consistent with the value of the work completed during the period (i.e., percentages). From a tax perspective, it distributes the tax burden over the years in which the contract is implemented fairly. However, the difficulties facing contracting companies that apply this progress method are:
- Correcting profits resulting from invoices based on the percentage of completion when they are higher than the actual percentage of completion, or due to the client's inability to fully meet its obligations to the contractor. Furthermore, the estimates based on which the percentage of completion was determined may be subject to changes as the project progresses, making it difficult to accurately predict future results. This may lead to inaccurate estimates, erroneous financial statements, and potential disputes with stakeholders, especially the Tax Authority.

Correcting profits resulting from the reimbursement of non-deductible expenses according to IBS. This case relates to the method adopted to avoid duplication of work (differences between tax and accounting rules). During the settlement related to the reincorporation of costs into profits determined according to the progress method. There are non-deductible expenses. Expenses cannot be deducted because they are not related to the company's operating activity, and other expenses related to the operating activity are unjustified.

According to paragraph 133-4 of the Financial Accounting System, institutions are allowed to create provisions for potential future risks and burdens. However, the tax law may not accept the deduction of these created provisions, as their deduction from the tax result remains subject to the precise determination of their amount and their tax justification. Therefore, in the event of the absence of tangible evidence to justify them, they become irrevocably non-deductible.

4- Challenges of the International Financial Reporting Standard (IFRS 15) (Revenue from Contracts with Customers):

IFRS 15 was primarily introduced as a replacement for International Accounting Standards No. 18 "Revenue" and No. 11 "Construction Contracts" due to the difficulty of applying these standards to complex and interrelated revenue recognition scenarios. To mitigate the prevalent fraudulent behaviour. The standard was developed as a joint project between the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) to develop common revenue recognition requirements that address the following (Hamidat, 2019, p. 627) :

- Eliminate inconsistencies and weaknesses in previous standards;
- Provide a robust framework for addressing different revenue recognition scenarios.
- Improve comparability of revenue recognition practices across businesses, sectors, legislation, and financial markets;
- Provide users of accounting information with more useful information through improved disclosure requirements;
- Simplifying the preparation of financial statements by reducing the number and detail of revenue recognition requirements. IFRS 15 was replaced by IAS 18 and IAS 11, because it was difficult for many companies to apply them due to their approach, which was considered too limited (Chentoufi, Aya Alami, 2022, p. 27).

The two standards rely on different methods for accounting for revenue. IAS 18 relies on the transfer of risks and rewards of assets or services provided to customers, while IAS 11 relies on the progress of a project. Despite the interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC), it remains difficult for preparers of consolidated statements to recognise revenue due to the lack of guidance. This leads professionals to create different accounting treatments for similar transactions, which hurts the reliability of comparability between company accounts.

The old standards reveal weaknesses in the recognition of revenue from contracts with multiple components. Neither standard provides any method for identifying the various components of a contract with a customer. In this case, companies also define contract components and amounts based on their judgment, thus reducing the comparability of accounts.

Contracting companies generally face a significant challenge in implementing IFRS 15 due to the complex nature of their activities, which require accurate estimation of completion rates and the breakdown of multiple revenues for a single contract. Furthermore, the fluctuation of material and wage costs and the ongoing adjustments to the project scope make it difficult to implement the five-step model. While Algerian contracting companies are not required to implement International Accounting Standards, they are far removed from them in practice, given the high accuracy of estimation and transparency in disclosure.

Conclusion

The fundamental problem of accounting for construction contracts stems from the extreme importance of this type of contract in the construction and public works sector, as well as the close connection between project implementation on the one hand and the estimation of revenues and costs over a long period of time (more than one accounting cycle) on the other. This requires the adoption of an appropriate accounting method that allows the distribution of contract revenues and costs across the accounting periods for contract implementation, in accordance with the principle of matching revenues with expenses. The key element of these contracts is the timing of revenue recognition. Experts agree that the long-term nature of the contract makes waiting until the completion date to recognize the contract insufficiently reflective of the true nature of the activities and operations carried out by contracting companies during a given period. Therefore, the percentage of completion method was

developed, which recognizes revenue proportionally to the degree or amount of completion. This method is consistent with the accrual basis of accounting and the matching principle (revenues and expenses), in contrast to the completed contracts method, which recognizes revenue only upon completion of the contract.

Through hypothesis testing, it was concluded that:

- The financial accounting system does not provide a detailed and accurate treatment, especially regarding timing. Recognition and expenses in the implementation phases of long-term contracts, making the current treatment inconsistent across companies.
- The tax challenges facing Algerian contracting companies lead to significant difficulties related to the tax burden on unearned revenues, which impacts the choice of appropriate methods.
- Weak accounting treatment leads to inaccurate financial information, which negatively impacts decision-making by company management, funding agencies, and tax authorities.
- Factors such as inflation and material price fluctuations affect the accuracy of accounting measurement for long-term contracts.

In conclusion, this article demonstrates that accounting for long-term contracts in Algerian contracting companies still faces fundamental challenges, both at the level of the financial accounting system and practical application in the field. Therefore, it is imperative to develop the financial accounting system in line with developments in the international environment and the needs of the national environment in particular. This has become an urgent necessity to improve company performance and ensure the credibility and transparency of financial reporting.

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