

Analyzing the Relationship Between the Quality of Accounting Disclosure and the Mitigation of Tax Risks in Economic Enterprises: A Case Study

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Abstract---This study aims to analyze the relationship between accounting disclosure and the mitigation of tax risks, with the overarching objective of enhancing the credibility and transparency of financial reporting. The paper begins by presenting the theoretical and conceptual framework of both accounting disclosure and tax risks, clarifying their key principles and the potential interconnections between them. It then proceeds to an empirical investigation that examines the impact of accounting disclosure practices on reducing tax risks within the practical accounting environment. The findings reveal that compliance with appropriate and comprehensive accounting disclosure requirements significantly contributes to mitigating tax risks and enhances the reliability and informational value of financial reports. This, in turn, supports more informed decision-making by various stakeholders.

Keywords---Accounting Disclosure, Risks, Tax Risks, Financial Reporting, Accounting Transparency.

1. Introduction:

Accounting disclosure is considered one of the fundamental pillars of transparency in economic enterprises, serving as an effective tool that enables stakeholders to access the true financial position of the entity and make decisions on a sound basis. The importance of accounting disclosure increases significantly in the context of managing tax risks, as the clarity and accuracy of financial information

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reduce the chances of misinterpretation or misuse of tax laws, thereby limiting the enterprise's exposure to legal accountability or unexpected tax burdens. The central research problem of this study revolves around how accounting disclosure contributes to mitigating tax risks faced by economic enterprises. Specifically, the research question can be formulated as follows:

To what extent does accounting disclosure, through its quality and transparency, contribute to reducing tax risks faced by economic enterprises?

The significance of this study stems from its focus on accounting disclosure as a strategic tool for improving the financial performance of enterprises by lowering costs associated with tax risks and enhancing trust among both tax authorities and investors. Thus, its contribution is not limited to the tax dimension alone but also extends to fostering stability and sustainability in the financial performance of enterprises.

The primary objective of this study is to measure the effect of accounting disclosure quality on reducing tax risks, with particular emphasis on analyzing the relationship between compliance with accounting standards and the ability of enterprises to address tax-related challenges. It also seeks to highlight the role of accounting disclosure in strengthening financial transparency, which consequently alleviates tax burdens and improves the overall stability of economic performance.

2. Theoretical Framework of Accounting Disclosure

We will begin by presenting the general framework of accounting disclosure through defining its concept and identifying its various types.

2.1. Definition of Accounting Disclosure:

Experts have provided several definitions of accounting disclosure, including the following:

Accounting disclosure is defined as the adoption of a full transparency policy and the presentation of all significant financial facts relied upon by the parties interested in the organization. (Hammad, 2006, p. 54)

It is also defined by others as the dissemination of facts without concealing important information that must be disclosed or communicated to users, in order for the financial statements to be complete and to faithfully and fully represent the organization's performance and financial position. (Qally, 2004, p. 19)

The Saudi Organization for Certified Public Accountants (SOCPA) defines disclosure as the clarification of general information that must be presented to ensure that the financial statements are not misleading. (Al-Hayali & Al-Ghazawi, 2015, p. 81)

Meanwhile, the American Accounting Association (AAA) defines disclosure as the clear presentation of financial statements in accordance with Generally Accepted Accounting Principles (GAAP). This pertains to the form and classification of the information presented in the financial statements and reports, as well as the meaning of the terms used therein, in a manner that enhances their relevance for predicting the organization's future position and supporting appropriate investment decision-making. (Halim, 2015, p. 178)

The term "disclosure" in accounting also refers to the process of presenting and providing essential information about economic entities to parties with current or potential interests in those entities. In other words, it involves presenting information in the financial statements and reports in a clear and understandable language for the informed reader, without ambiguity or misrepresentation. Accordingly, accounting disclosure is considered one of the tools of communication, as without effective communication, the outputs of the accounting system would be of little value. It is important to note that the communication and provision of information are not limited to financial statements alone, but also include the entirety of financial reports. (Zeid, 2005, pp. 577-578)

Contemporary accounting disclosure is no longer limited to merely communicating, presenting, and interpreting the results of accounting measurement. In reality, its scope has expanded to include the presentation of quantitative or qualitative information—whether actual or estimated—that significantly impacts decision-makers, even if such information does not arise from accounting measurement and may not align with Generally Accepted Accounting Principles (GAAP). (Al-Fattah, 2002, p. 69)

As a synthesis of the aforementioned definitions, a comprehensive definition of appropriate accounting disclosure can be formulated as follows:

"It is the entire process through which all necessary and relevant information is disclosed and presented to all users impartially, fairly, and without misrepresentation, with the aim of assisting and guiding them in making informed decisions."

2.2. Types of Accounting Disclosure

The types of accounting disclosure vary depending on its objectives and purposes. The following are its most important types:

2.2.1. Voluntary Disclosure:

The Financial Accounting Standards Board (FASB, 2001) defines voluntary disclosure as additional information that is not explicitly required by Generally Accepted Accounting Principles (GAAP) or the regulations of a specific country. Voluntary disclosure represents a sincere effort by the economic entity to provide supplementary information to financial statement users so that they do not have to resort to other potentially misleading sources. Managers possess more information about their organization's current and future performance than external parties, and several studies have indicated that these managers have incentives to voluntarily disclose such information. (Al-Waqad, 2011, p. 211)

2.2.2. Mandatory Disclosure:

This refers to the minimum level of disclosure required by laws and regulations issued by the relevant authorities. (Al-Mutairi, 2012, p. 15)

2.2.3. Fair Disclosure:

Fair disclosure focuses on the balanced consideration of the needs of all financial stakeholders, meaning that information is presented in a manner that respects fairness among all parties' needs, and that the formulation and presentation of information are free from bias favoring one party over others.

2.2.4. Adequate Disclosure:

This involves specifying the minimum amount of accounting information that must be provided in the financial statements so that they are not misleading to users when making decisions.

2.2.5. Relevant Disclosure:

Relevant disclosure considers the needs of data users, the conditions of the entity, and the nature of its activities. It is not only important to disclose financial information but more importantly, that the information is valuable, useful to its users, and suitably aligned with the nature of the entity's operations and circumstances. (Malik, 2015, p. 14)

2.2.6. Educational and Informational Disclosure:

This type of disclosure emerged due to the increasing importance of relevance, which led to demands for disclosure of information suitable for decision-making. Examples include disclosure of fixed asset components, inventory details, dividend distribution policies, and the organization's financing structures, among others. It is observed that this type of disclosure helps reduce reliance on internal sources for obtaining additional information through informal channels, which can result in benefits for certain groups at the expense of others. (Al-Shirazi, 1990, p. 330)

2.2.7. Full Disclosure:

Full disclosure assumes the presentation of all relevant information. However, full disclosure may sometimes be viewed as the presentation of excessive information, which can be inappropriate. An overabundance of information is considered harmful because presenting insignificant details can obscure material information and make financial reports difficult to interpret. Nevertheless, disclosure should be appropriate regarding material information to investors and others, provided it is used within its proper context. (Hendriksen, 1990, pp. 766-767)

2.2.8. Preventive Disclosure:

This type of disclosure is based on the necessity to present financial reports in a manner that is not misleading to stakeholders. The primary objective is to protect the financial community (ordinary investors) who have limited ability to interpret information. Therefore, the disclosed information must be highly objective. Preventive disclosure aligns with full disclosure as both aim to reveal the necessary information to ensure it is not misleading to external investors. It requires the disclosure of the following matters:

- Accounting policies and changes therein;
- Changes in the nature of the accounting entity;
- Corrections of errors in financial statements;
- Contingent gains and losses;

Financial relationships and subsequent events. (Al-Shirazi, 1990, pp. 324-326)

2.2.9. Comprehensive Disclosure:

The concept of comprehensive disclosure means that the published financial statements and their accompanying notes must include any economic information related to the entity that affects the decisions of financial statement users.

2.2.10. Differential Disclosure:

This type of disclosure focuses on presenting financial statements in a summarized and concise manner, highlighting the differences or variations in items through comparative contracts to clarify significant changes and identify the general trend of those changes. (Al-Hadi, 2012, p. 05)

2.3. Objectives and Importance of Accounting Disclosure

After addressing the concept of accounting disclosure and its various types, we will attempt to review its objectives and importance both for the organization and for the various stakeholders involved with it.

2.3.1. Objectives of Accounting Disclosure

Accounting disclosure achieves the following objectives:

- Providing all significant information that enables users of financial statements to make comparisons within the same year and across different years;
- Presenting information about future cash inflows and outflows;

Assisting investors in estimating the return on investment. (Bouhaddida & Gamane, 2015, p. 356)

- Identifying unrecognized elements and providing useful measures for these elements, such as the amount of unrecognized deferred tax and descriptions of the guarantees the organization holds against debts;
- Describing recognized elements and providing related measures for these elements beyond those used in the financial statements, such as the fair value estimation of balance sheet items;

Providing information to assist investors and creditors in assessing the risks associated with both recognized and unrecognized elements; (Ashour, 2008, pp. 25-26)

- Providing essential information that enables users of financial information to make comparisons across different years;
- Listing all information that should be included in the organization's financial statements in a manner beneficial to its users;
- Presenting financial statements to investors in a manner free from confusion and misrepresentation;
- Providing information to assist investors in evaluating potential risks;

Delivering information regarding current and future internal and external cash flows; (Malik, 2015, p. 15)

- Providing useful information for making economic decisions;
- Serving users who have limited authority or limited resources;

- Supplying necessary information to assess the organization's ability to efficiently and effectively utilize available resources;

Providing users with information for comparison and evaluation of the organization's earning capacity; (Al-Hayali & Al-Ghazawi, 2015, pp. 73-74)

Investors need information regarding the amounts, timing, and uncertainty of the organization's future economic inflows and outflows. (Berndt & Leibfried, 2007, p. 397)

2.3.2. The Importance of Accounting Disclosure

The importance of accounting disclosure can be summarized as follows:

Adequate disclosure helps economic decision-makers evaluate the financial position, operations, and achievements of organizations, and understand the specific characteristics and features associated with the nature of their activities; (Khaled, 2002, p. 154)

Reducing the problem of information asymmetry between the various parties within the organization; (Bouhaddida & Gamane, 2016, p. 97)

- Disclosure helps users of accounting information to optimize the use of economic resources by making informed decisions based on the disclosed information;
- It plays an important role in determining the fair market price of shares in financial markets (stock exchanges), as disclosure reduces uncertainty regarding investments and encourages savers to provide their funds to investors, given that information is available and accessible to all without bias;
- It assists management in demonstrating the organization's contribution to providing services for all and its social responsibility toward society as a whole.

It provides transparent and useful information about market participants and their transactions, which is essential for ensuring an organized and efficient capital market. Moreover, it is one of the key prerequisites for a well-regulated financial market. (Ashour, 2008, p. 25)

3. Theoretical Framework of Tax Risk

In this section, we aim to address the most important sources of tax risks to consider.

3.1. Definition of Risk: Linguistically, the term "risk" is derived from the Latin word *risca* (later *risque*), which denotes an imbalance or a deviation from the expected outcome; in other words, a divergence opposite to the anticipated or desired result.

From a terminological perspective, risk refers to uncertainty regarding future outcomes. At this point, it is important to distinguish between the concepts of "risk" and "uncertainty." Although the two are often used interchangeably, there is a key difference: uncertainty refers to the lack of knowledge about future events that may affect the objective. As we observe in our daily activities, under uncertain conditions, no one can precisely predict the extent of potential losses or gains that may occur. (Gharbi, 2023, pp. 7-8)

3.2. Types of Risk:

In this section, we aim to shed light on the main classifications of tax-related risks.

3.2.1. Risks Classified by Their Nature (Nature of Risks)

Risks can be divided into two primary types:

- **Non-Economic Risks:** These are risks associated with the social or moral dimensions of individuals and do not directly impact their financial or economic situation. When such risks occur, the result is a purely moral or emotional loss without any financial repercussions—for instance, the loss of a close friend, a religious leader, or a reformist figure. These risks do not generate direct gains or losses in income or property; rather, they influence an individual's psychological and emotional state. Consequently, their study is more relevant to the fields of philosophy, sociology, and psychology than to economics. Nevertheless, understanding them remains useful in distinguishing between risks that can be insured against and those that require alternative management strategies.

- **Economic Risks:** These are risks that, once realized, lead to direct financial losses usually borne by the decision-maker. They are evident in numerous situations, such as the risk of death leading to the loss of income, the risk of fire causing the destruction of an asset, the risk of sinking resulting in the loss of a ship, cargo, or freight charges, and the risk of recession leading to reduced sales and commercial losses. These risks are purely financial in nature and, therefore, are of primary concern to those engaged in economic and commercial activities. (Al-Omari & Atta, 2012, pp. 9-12)

3.2.2. Risks Classified by Their Characteristics

According to Dr. Fikri Shehata and Professor Maubry, risks can be classified by their characteristics into the following:

- **Pure Risks:** Pure risks are those that involve only the possibility of loss, without any potential for gain. They are typically not associated with the core activities of individuals or organizations, but rather occur incidentally. Avoiding them does not result in missed profit opportunities or reductions in core activities. Hence, it is always desirable to avoid such risks whenever possible, as they yield nothing but losses. Examples include risks affecting property, such as fire, theft, sinking, or explosion; risks affecting individuals, such as death, disability, illness, old age, and unemployment; as well as risks affecting others, where individuals or organizations are required to compensate for damages caused.

- **Speculative (Commercial) Risks:** Speculative risks are those that involve the possibility of both gain and loss. They constitute an integral part of the activities of individuals and organizations, and are voluntarily undertaken given the potential for profit if favorable conditions arise. For example, changes in prices for a stockholder: a rise in prices leads to profit, while a decline results in loss. These risks appear in most economic decisions, such as investment, marketing, and various operations regularly undertaken by individuals and organizations in their daily activities. (Abdel Salam, 2020, pp. 21-22)

3.2.3. Risks Classified by Their Relation to the Firm

According to this classification—which is widely adopted in modern models of financial theory—the risks faced by a firm can be divided into two main groups:

- **Systematic Risks:** Systematic risks, also referred to as general risks, are those that affect all firms within the market regardless of their type, size, or ownership structure. These risks arise from broad external variables such as economic or political conditions, and therefore cannot be eliminated through diversification. For this reason, they are also known as market risks or non-diversifiable risks. Firms most exposed to these risks include those producing essential goods, such as equipment manufacturers and construction companies, as well as firms with highly leveraged financial structures and seasonal sales, such as airlines, in addition to small firms producing rapidly obsolete goods like computer manufacturers. In such cases, sales, profits, and stock prices are closely tied to the overall level of economic activity, making systematic risks particularly high for these firms.

- **Unsystematic Risks:** Unsystematic risks, also referred to as specific risks, are those faced by a particular firm as a result of its own internal characteristics and circumstances. Unlike systematic risks, these risks can be controlled or reduced through diversification strategies, and are therefore also called unique risks or diversifiable risks. They are especially evident in firms producing non-durable goods, where sales, profits, and stock prices are only weakly correlated with the general level of economic activity. This reduces their exposure to systematic risks while increasing the relative importance of unsystematic risks. (Rachid, 2011, pp. 83-84)

Based on the foregoing, we can formulate the following figure:

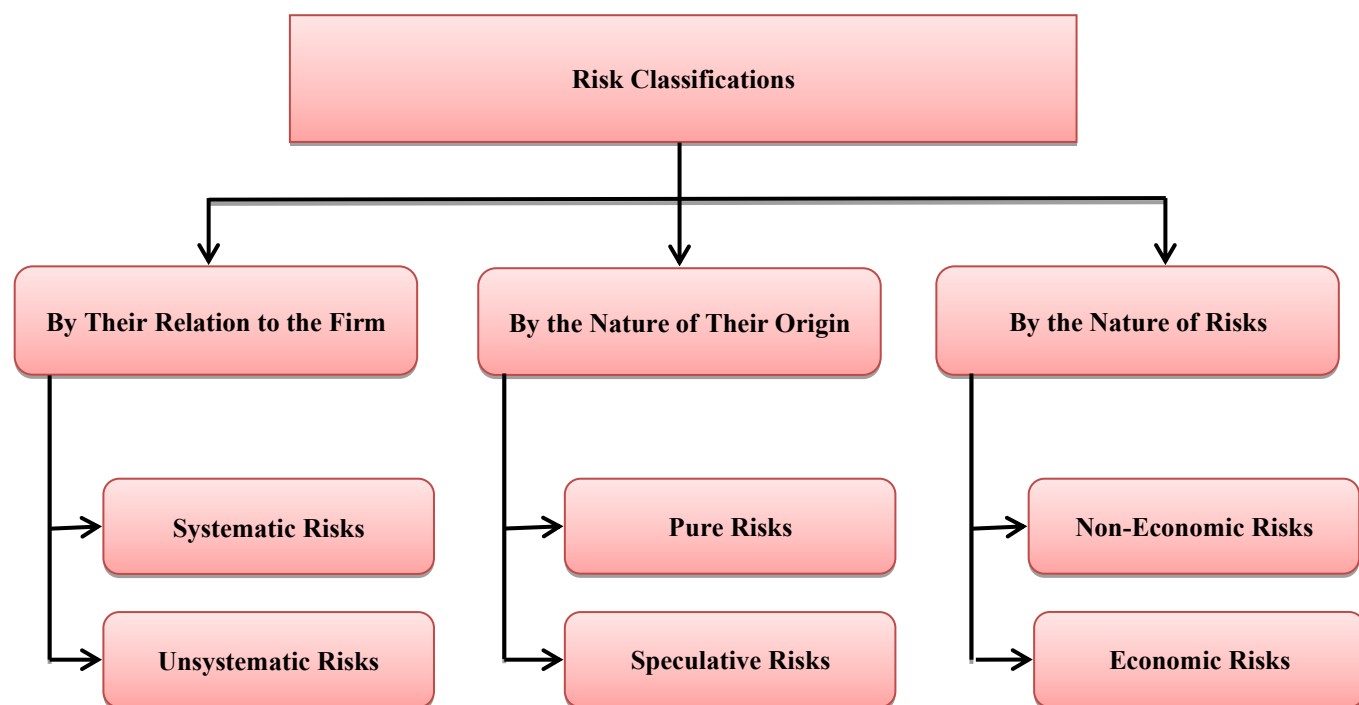


Figure 01: Risk Classifications

Source: Compiled by the student based on the foregoing.

3.3. Definition of Tax Risk:

Tax risk refers to the probability that a chosen action or activity may result in a tax outcome different from what was originally planned. (A. Guenther, R. Matsunaga, & McWilliam, 2013, p. 02)

Jean-Luc Rossignol considers that the concept of tax risk encompasses two meanings: the first is non-compliance with tax laws, whether intentional or unintentional; the second is unsound decision-making that may lead to the loss of opportunities. . (Souissi & Bouhaddida, 2021, p. 46)

3.4. Sources of Tax Risk:

The sources of tax risk in an economic enterprise can generally be divided into two main categories: causes arising from weak managerial practices within the firm, and causes stemming from tax legislation. These are clarified as follows:

3.4.1. Causes Arising from Weak Managerial Practices within the Firm:

- Lack of continuous monitoring of tax-related aspects within the enterprise;
- Weak control over financial resources, combined with intense competition, may lead the enterprise to postpone the payment of due taxes in order to utilize available liquidity. This, however, exposes it to risks of non-compliance with tax obligations and irregular tax practices;
- The reliance of government bodies and project owners on awarding contracts to the lowest bidder may push some enterprises to reduce prices in order to secure contracts without conducting thorough cost analysis. Ultimately, this may drive them toward tax evasion as a means of deferring tax payments. (Hamidatou & Missa, 2019, p. 70)

3.4.2. Causes Arising from Tax Legislation:

The complexity of tax legislation is, by its very nature, a significant source of tax risks faced by an economic enterprise. This is manifested through:

- **Complexity and ambiguity of tax regulations** increase the likelihood of taxpayers violating tax laws.
- **High tax liabilities** may prompt taxpayers to attempt tax avoidance or manipulate declaration data.
- **Instability of tax legislation** is a major source of tax risk, including changes in laws, their interpretation, and other regulatory provisions.
- **Lack of continuous updating of tax managers' knowledge** imposes additional burdens and increases the probability of non-compliance with applicable tax regulations. (Douibi, 2024, pp. 30-31)

In light of the foregoing, the following figure has been developed:

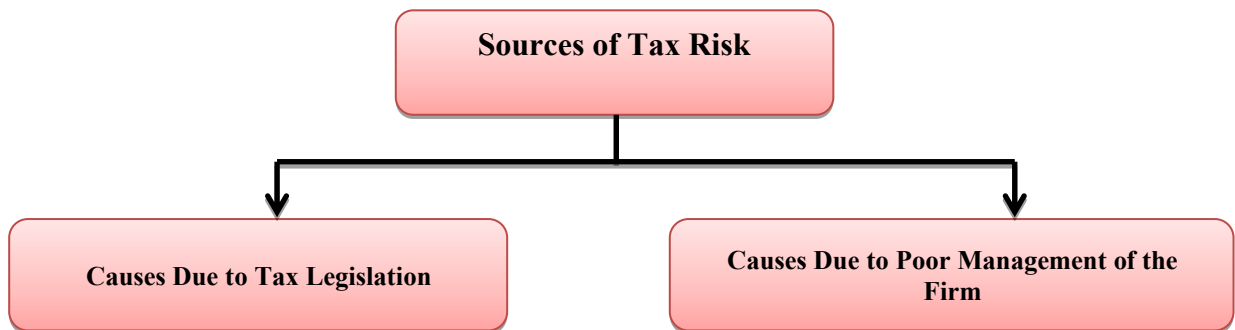


Figure 02: Sources of Risk

Source: Compiled by the student based on the foregoing.

3.5. Tax Risk Assessment through Accounting: Form and Substance:

Tax risks may arise from various accounting factors. To effectively mitigate these risks, it is essential to examine the firm's accounting practices comprehensively, considering both their formal structure and substantive content.

3.5.1. Examination of Accounting in Terms of Form:

This involves monitoring the accounting records in general and ensuring that they are maintained on a daily basis and supported by the necessary supporting documents. For this purpose, several indicators are relied upon, including:

- The date of the judge's signature on the mandatory accounting books (i.e., properly numbered and certified);
- The general condition of the accounting records;
- Accounting must be complete and regular: this requires the inclusion of the legally prescribed records, namely:
 - **Commercial books**, which include the general journal and the inventory book. These must be preserved, along with supporting documents, for a period of no less than 10 years starting from the closing date of the last financial cycle.
 - **Supporting documents**, which include original purchase invoices and all expenses, in addition to copies of sales invoices, customs documents, banking documents, etc.
- Accounting must be **legal**: this is ensured by verifying the consistency between the trial balance and the general journal on the one hand, and between the trial balance and the general ledger on the other.
- Accounting must be **persuasive**: meaning that all accounting entries should be justifiable and backed by proper evidentiary documents. (Nouara & Khairi, 2024, pp. 223-224)

3.5.2. Examination of Accounting in Terms of Substance:

This includes risks arising from errors in the balance sheet, such as:

- Errors in depreciation, for instance, incorporating depreciation of equipment leased to other entities (giving precedence to economic reality over legal form);
- Errors in inventory valuation, which may lead to overstating its value.

In addition, risks arising from errors in the income statement are particularly significant, as they include operating expenses, encompassing both operating charges and financial charges, as well as extraordinary expenses that may be subject to accounting errors.

When determining the taxable result, the accounting result is used as a starting point, to which certain non-deductible expenses are added and some non-taxable revenues are deducted. However, mistakes may occur during this process of additions and deductions, which can result in misstatements in the estimation of the taxable result. (Hamidatou, 2012, pp. 104-105)

3.6. Stages of the Tax Risk Management Process

The stages of the risk management process can be summarized as follows:

3.6.1. Preparation:

This represents the initial stage in the risk management process, where prior planning is carried out, and the scope of work is clearly defined. This step establishes the overall framework of the process and sets the objectives to be achieved.

3.6.2. Risk Identification:

This is considered one of the most critical stages, as it involves recognizing significant risks, which are events that, if realized, may lead to problems that negatively affect the organization. Risk identification can be based either on identifying the problem itself or its source. The common methods for risk identification include:

- **Scenario-based identification:** This method involves developing different scenarios that may represent alternative ways of achieving a given objective or analyzing the interaction of market forces. Any event that generates an undesirable scenario is considered a potential risk.
- **Objective-based identification:** Since organizations and projects are established to achieve specific objectives, any event that hinders the attainment of these objectives, whether partially or entirely, constitutes a risk.
- **Taxonomy-based identification:** This approach involves detailing all potential sources of risk according to predetermined classifications.
- **Reviewing common risk checklists:** Many organizations rely on predefined lists of potential risks, based on past experiences or established standards. (Nizar, 2019, pp. 135-136)

3.6.3. Qualitative Risk Analysis:

This stage represents the process of evaluating the potential impact and likelihood of risks, as well as the extent of their possible consequences. Risks are then ranked according to their degree of influence on project objectives. In this process, risks are prioritized as high, medium, or low, depending on their expected impact. Qualitative risk analysis requires assessing risks in terms of their severity, consequences, and probability of occurrence, using qualitative methods and tools such as the **risk matrix**, which classifies risks into categories ranging from very high to very low. A sound qualitative assessment of risks enables managers to make informed decisions.

3.6.4. Quantitative Risk Analysis:

This stage involves the numerical assessment of risks, often referred to as quantitative analysis. It provides a measurable description of risks based on their probability of occurrence and the potential consequences they may entail, usually expressed in monetary terms. The objective of this analysis is to support the achievement of the organization's goals by offering a quantified estimate of risk exposure and its possible financial implications. (Hamidat, 2018, p. 82)

3.6.5. Identifying Alternatives and Selecting the Appropriate Risk Response Strategy:

Following the identification and measurement of risks, the next step involves selecting the most suitable method to address each risk individually. The main strategies include:

- **Risk Avoidance:** This approach involves refraining from engaging in the activity that generates the risk.
- **Risk Diversification and the Markowitz Portfolio Theory:** In the 1950s, Harry Markowitz introduced the portfolio theory, which established the concept of the *efficient frontier* for risky investments based on the principle of diversification, often summarized by the expression: “Do not put all your eggs in one basket.” Diversification entails spreading investments across a sufficiently large number of projects.
 - If the available investment projects are perfectly and negatively correlated (i.e., when the return on investment A is high, the return on investment B is low), diversification can completely eliminate risk.
 - If the available investment projects are uncorrelated (i.e., the correlation coefficient is zero), diversification significantly reduces risk.
 - Conversely, if the available projects are perfectly and positively correlated, diversification does not reduce risk at all. (Hani, 2018, p. 118)

3.6.6. Risk Monitoring and Control:

Risk monitoring and control involve implementing a set of measures derived from the options presented in the previous stage. New procedures may be required due to the emergence of new risks, as previously applied techniques may become ineffective when risks evolve.

To effectively control risks, the following actions should be taken:

- Eliminate risks where possible;
- Substitute risks by selecting alternative response strategies (contingency plans);
- Establish engineering and administrative controls;
- Provide personal protective equipment and implement an emergency plan if necessary;
- Take corrective actions and revise project programming (project plan) as required. (Hamidat, 2018, pp. 82-83)

4. Applied Study: The Effect of Accounting Disclosure Quality on Reducing Tax Risks in Economic Enterprises – A Case Study –

This section presents the data and variables of the applied study, as well as the study sample and research instrument, which serve as a culmination and reinforcement of the preceding theoretical framework. Moreover, this section introduces the economic enterprise selected as the subject of the study. From this perspective, the role of accounting disclosure in mitigating and monitoring tax risks lies in examining several dimensions. This can be further illustrated in Figure 3, which highlights these aspects.

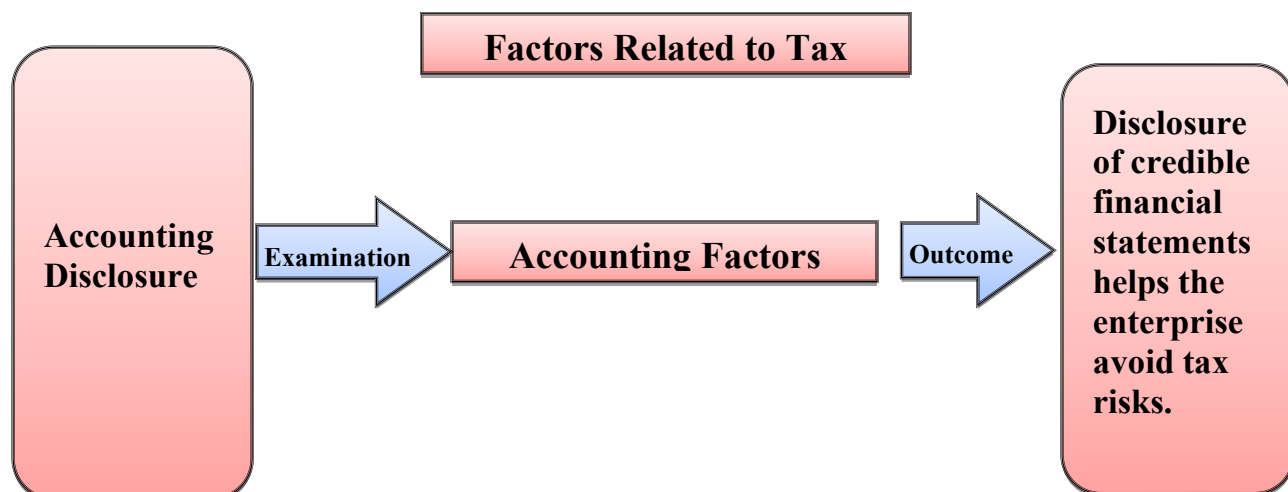


Figure 03: Conceptual Framework of the Applied Study
Source: Compiled by the student based on the foregoing.

Figure 03 illustrates the conceptual framework of the applied study, which emphasizes the role of accounting disclosure in mitigating tax risks. This is achieved through the examination of accounting factors related to tax risks, thereby ensuring the preparation of tax declarations that comply with tax regulations and their submission within legally prescribed deadlines, ultimately helping the enterprise avoid multiple risks.

4.1. Introduction to the Case Study Enterprise

The selected enterprise is one of the nationally active production companies. It is a limited liability company (SARL) that has been operating in Algeria since 2019 in the field of office equipment manufacturing and information technology devices. The technical profile of *SARL BureauTech* is presented below:

Item Details
Date of Establishment 21/01/2019
Company Name SARL BureauTech
Share Capital 3,000,000 DZD
Headquarters Algiers-Center (Capital)
Legal Form Limited Liability Company (SARL)
Type of Enterprise Productive
Main Products Office equipment and all devices related to information technology

Figure 04: Technical Profile of SARL BureauTech
Source: Author's elaboration based on the company's data.

The following tables present the summarized balance sheet of the case study company for the fiscal period (2022–2023), as detailed below:

4.2. Examination of the Financial Balance Sheet

In what follows, we will examine the financial balance sheet of the case study company by ensuring the accuracy of both sides: assets and liabilities.

4.2.1. Review of the Assets Side of the Financial Balance Sheet

This is carried out by analyzing the assets side, which includes both non-current assets and current assets.

A. Non-current Assets

Based on the financial balance sheet of the case study company, it becomes clear that the non-current assets consist of intangible assets and tangible assets, as illustrated in the following table:

Table No. 01: Non-Current Assets

Statement	2022	2023
Intangible Assets	00	78000
Tangible Assets	5.121.436,82	3.222.388
Total Amount	5.121.436,82	3.300.387,97
Depreciation	413.855,52	579.395,27
Net Amount	4.707.581,3	2.720.992,70

Source: Author's elaboration based on the company's data.

It can be observed from the table that total non-current assets decreased to **DZD 3,300,387.97** compared to **DZD 5,535,292.34** in the previous year, reflecting a decline of **DZD 2,234,904.37**. This decrease is due to errors that occurred in the calculation of certain balance sheet assets, specifically an error in recording an import file, which had been previously classified under fixed assets instead of inventories. The error was corrected in 2023. Regarding depreciation, it was recorded using the **straight-line method**, which is permitted under the Financial Accounting System (SCF).

- **Intangible Assets:** These consist of:

Table 02: Intangible Assets

Account Number	Asset	Amount
204000	Software and related assets	78.000

Source: Author's elaboration based on the company's data.

It is observed from the table that in 2023, the company acquired a software application, namely **Logiciel Pc-Paie**, which is specialized in payroll management.

Furthermore, the intangible assets recorded during this financial year were all recognized in accordance with the **Financial Accounting System (SCF)** and duly supported by the appropriate accounting documentation.

- **Tangible Assets:** These consist of the following:

Table 03: Tangible Assets

Account Number	Asset	Amount
215000	Technical installations, machinery, and industrial equipment	2.741.818
218000	Office equipment	480.570
The total		3.222.388

Source: Author's elaboration based on the company's data.

It is observed from the table that the various industrial equipment and office equipment recorded under tangible assets during this financial year were all recognized in accordance with the Financial Accounting System, and duly supported by the appropriate accounting documentation.

- **Assets Created or Acquired in 2023:** These assets consist of the following:

Table No. 04: Non-current Assets for the Year 2023

Statement	Amount
Intangible Assets	78.000
Tangible Assets	480.570
Total	558.569

Source: Author's elaboration based on the company's data.

It is observed from the table that during the year 2023, the company acquired two types of non-current assets. The first is **intangible assets**, amounting to **78,000 DZD**, represented by computer software, and the second is **tangible assets**, amounting to **480,570 DZD**, which include industrial equipment as well as office equipment.

All non-current assets acquired during this financial year were recorded in accordance with the Financial Accounting System and were duly supported by the appropriate accounting documentation.

B. Current Assets: These include the following:

- **Inventories:** The following table illustrates the inventories of the study company for the year 2023.

Table No. 05: Inventories for the Year 2023

Statement	2022	2023
Account 31: Raw materials	00	14.588.314
Account 32: Other supplies	00	220.290
Total	00	14.808.604

Source: Author's elaboration based on the company's data.

We note from the table that the value of inventories in 2022 was zero, which indicates a suspension of the company's activities during that year. In contrast, in 2023, the inventory value reached DZD 14,808,604, including raw materials worth DZD 14,588,314 and other supplies represented by packaging materials worth DZD 220,290. This demonstrates the revival of the company's activities and its return to the market in that year. Furthermore, it is evident that the company under study did not record any provisions related to the decrease in the value of inventories during the study period.

- By examining the inventory, we confirmed the existence of a detailed inventory count, demonstrating that the inventory was fairly valued and reflected the reality. We also found that all inventory transactions were recorded in accordance with the Financial Accounting System (FAS) and properly justified with appropriate accounting documentation.
- **Customers (Account 411):** The value of receivables from customers and related accounts amounted to DZD 20,353,902.81. We found that all amounts related to customers were recorded in compliance with the FAS and supported by proper accounting documentation. However, no provisions for impairment of receivables were recorded to cover potential uncollectible accounts in the event of doubtful debts or expected bankruptcies.
- **Other debtors:** The value of other debtors amounted to DZD 3,600,000. It was verified that all amounts related to other debtors were recorded in accordance with the FAS and duly supported by accounting documentation.
- **Taxes and related accounts:** These include the following:

Table No. 06: Taxes and Similar Items

Tax	Amount
Installments of Corporate Income Tax (paid)	6.000
Recoverable Value-Added Tax (VAT)	1.586.577
Value-Added Tax on Purchases (installment)	5.747,90
Total	1.598.324,90

Source: Author's elaboration based on the company's data.

The table illustrates the various advance payments made in relation to taxes and fees, where the total value of taxes and related accounts amounted to DZD 1,598,324.90. This mainly concerned the recoverable Value Added Tax (VAT) in the amount of DZD 1,586,577. By examining the taxes and similar items recorded under assets, we found that these entries for the fiscal year were all recorded in accordance with the Financial Accounting System (FAS) and were properly justified through relevant tax returns as well as appropriate accounting documentation.

- **Cash and Cash Equivalents:** The following table presents the liquidity position of the company under study:

Table No. 07: Treasury Assets

Description	Amount
Account 512: Bank	576.641
Account 53: Cash	35.138
Total	611.779

Source: Author's elaboration based on the company's data.

From the table, it can be observed that the company's liquidity amounts to DZD 611,779. This amount enables the company to address certain financial constraints; however, the treasury assets are not high, which indicates that the company's funds are being utilized rather than frozen.

All balances of bank accounts were justified through the appropriate bank reconciliation statements as well as balance confirmations, while the cash balance in the cash account was verified through the official cash closing report of the company. Accordingly, the liquidity recorded during this financial year was fully substantiated by the appropriate accounting documentation in compliance with the Financial Accounting System (FAS).

4.2.2. Review of Liabilities of the Financial Balance Sheet

This stage involves the examination of the company's equity, non-current liabilities, and current liabilities.

A. Equity:

Based on the balance sheet of the company under study, it is evident that the company did not resort to debt financing for its fixed resources but relied solely on its own equity, as illustrated in the following table:

Table No. 08: Equity

Statement	2022	2023
Issued capital	3.000.000	3.000.000
Net accounting income	-474.674	1.981.663
Retained earnings	-671.308	1.145.982-
Total	1.854.018	3.835.681

Source: Author's elaboration based on the company's data.

From the table, it can be observed that equity increased in 2023 compared to the previous year. The primary reason for this increase lies in the net accounting result: while the company reported a loss in 2022, it achieved a profit of DZD 1,981,663 in 2023. Consequently, the company is required to establish a legal reserve of at least 5% of annual profits.

– **Company Capital:** The company's share capital remained unchanged during both 2022 and 2023, amounting to DZD 3,000,000. This represented 78.21% of total equity in 2023. The share capital is composed of 3,000 shares, each with a nominal value of DZD 1,000.

Based on the examination of the company's equity accounts, and after reviewing both the company's articles of association and accounting records, it was found that the amounts reported in the financial statements are accurate and truly reflect the company's financial position. Furthermore, the accounting records were maintained in compliance with the Financial Accounting System (FAS) and were consistent with the tax returns submitted to the tax authorities.

B. Non-current Liabilities:

The company did not resort to long-term debt financing; therefore, no non-current liabilities were recorded.

C. Current Liabilities:

The following table presents the current liabilities of the company under study:

Table No. 09: Current Liabilities

Statement	2022	2023
Suppliers and related accounts	00	2.829.750
Taxes	20.000	367.334
Other liabilities	3.685.100	36.660.839
Treasury liabilities	00	00
Total	3.705.100	39.857.923

Source: Author's elaboration based on the company's data.

From the table, it can be observed that current liabilities increased significantly in 2023 compared to the previous year. The main reason for this increase lies in the rise of "other debts." Another key factor is the absence of supplier accounts in 2022, which was due to the company not purchasing any inventories during that year, unlike in 2023. On the other hand, it is noted that treasury liabilities recorded no value in both years, indicating that the company did not withdraw any funds from the bank.

– **Taxes and Duties:** These represent unpaid taxes, including Corporate Income Tax (CIT) and Global Income Tax (GIT), as shown in the following table:

Table No. 10: Taxes and Duties

Tax	Amount
Corporate Income Tax	357.614
Global Income Tax	9.720
Total	367.334

Source: Author's elaboration based on the company's data.

From the table, it is observed that the total amount of taxes and duties reached **367,334 DZD**, most of which is represented by Corporate Income Tax amounting to **357,614 DZD**, in addition to Global Income Tax of **9,720 DZD**. Through our examining of the various taxes and duties recorded under liabilities in the financial balance sheet for this fiscal year, we found that the recorded amounts were consistent with those declared in the different tax returns.

– **Other Debts:** These consist of:

Table No. 11: Other Liabilities

Statement	Amount
Employee wages	97.151,80
Social security contributions	70.397,68
Partners' current accounts	36.493.289,45
Total	36.660.838,93

Source: Author's elaboration based on the company's data.

From the table, it is observed that the majority of other debts are represented by partners' current accounts amounting to **36,493,289.45 DZD**, in addition to employee advances and social security contributions. It was verified that all debts recorded under liabilities for the fiscal year are duly documented and registered in accordance with the Financial Accounting System.

4.3. Examination of the Income Statement

The determination of the taxable result is derived from the accounting result after adding certain non-deductible expenses and subtracting certain non-taxable revenues. This process of additions and deductions may represent a potential source of error in determining the taxable result.

4.3.1. Examination of Revenues for the Fiscal Year:

The following table illustrates the sales and related products of the case study enterprise:

Table No. 12: Sales and Related Products

Account	Statement	Amount
Acc. 701	Sales and related products	39.259.300
Acc. 758	Other operating income	139.673,92
Acc. 768	Financial income	2.469,11
	Total amount	39.401.443,03

Source: Author's elaboration based on the company's data.

- **Account 701 – Sales and Related Products:** Sales increased in 2023 to reach **39,259,300 DZD**. It is worth noting that the ratio of consumed purchases cost to sales in 2023 amounted to **84.07%** of total sales, and the margin covered all operating expenses such as personnel expenses and depreciation.
- **Account 758 – Other Operating Income:** Its value amounted to **139,673.92 DZD**, which includes other current operating revenues. Through our examining of the various other operating products recorded during this fiscal year, we found them to be compliant with the Financial Accounting System and duly supported by appropriate accounting documents, with the recorded amounts matching those declared in the tax filings.
- **Account 768 – Financial Income:** Its value amounted to **2,469.11 DZD**, consisting solely of exchange gains. Upon examining the various financial products recorded during this fiscal year, we found them to be compliant with the Financial Accounting System and duly supported by the necessary accounting documents.

From the examination of the different revenues recorded during the fiscal year as a whole, we concluded that they are consistent with the Financial Accounting System and properly justified with supporting documents, with the amounts in line with those declared in the tax returns.

- **Inventory Movements for 2023:** The following table illustrates the inventory movements of the case study enterprise for the year 2023:

Table No. 13: Inventory Movement for the Year 2023

Statement	Beginning Inventory	Inventory Movement during the Period		Ending Inventory
		Inputs	Outputs	
Acct. 31 – Materials and Supplies	00	47.083.251	32.494.936	14.599.314
Acct. 32 – Other Consumables	00	625.000	404.710	220.290
Total	00	47.708.251	32.899.646	14.808.604

Source: Author's elaboration based on the company's data.

We observe from the table that the opening inventory balance was **zero**, after which the company purchased (inputs) **47,083,251 DZD** worth of raw materials and consumed (outputs) **32,494,936 DZD** of them, leaving a closing balance of **14,599,314 DZD**.

In addition to raw materials, the company purchased packaging materials valued at **625,000 DZD**, of which **404,710 DZD** were consumed, leaving a closing balance of **220,290 DZD**.

Through our audit of inventory movements, we confirmed the existence of a detailed inventory listing. Accordingly, inventories were valued fairly and represent the actual situation. We also found that all transactions related to inventory movements recorded during the fiscal year were in compliance with the Financial Accounting System and duly justified with appropriate accounting documents (supporting evidence and purchase invoices).

4.3.2. Examination of Fiscal Year Expenses:

These are presented as follows:

Table No. 14: Fiscal Year Expenses

Statement	Amount
Consumed Purchases	33.009.087
External Services and Other Consumptions	1.139.669.13
Depreciation of the Fiscal Year	34.148.756,13
Employee Expenses	2.444.703,60
Taxes, Duties, and Similar Payments	00
Other Operating Expenses	163.492,82
Other Operating Charges	305.213,47
Financial Expenses	00
Taxes Payable on Ordinary Results	357.614
Deferred Taxes (Changes) on Ordinary Results	00
Total Ordinary Activity Expenses	37.419.780,02
Total Expenses	37.419.780,02

Source: Author's elaboration based on the company's data.

We observe from the table that **total consumed purchases** represent the largest portion of total expenses, amounting to **33,009,087 DZD**, which corresponds to **88.21%** of total expenses. This component of expenses is mainly composed of raw materials. Through our audit of the expense accounts, we did not identify any material errors in operating expenses. Furthermore, financial expenses were non-existent, and there were no extraordinary expenses. Consequently, we confirmed that the

values of the various expenses recorded during this fiscal year were registered in accordance with the Financial Accounting System and were properly justified with supporting accounting documentation. The amounts recorded for the different expenses were consistent with those reported in the accounting records and with the figures declared in the annual tax returns.

– **External Services:** The following table presents the various external services related to the company under study:

Table No. 15: External Services

Statement	Amount
Care, Repairs, and Maintenance	72.268,91
Documentation and Miscellaneous	179.554
Brokerage Fees and Commissions	300.000
Advertising, Publishing, and Public Relations	105.910
Travel, Missions, and Receptions	209.982
Postage and Telecommunications Costs	114.559,33
Banking and Related Services	107.193,22
Contributions and Similar Expenses	50.201,68
Total	1.139.669,14

Source: Author's elaboration based on the company's data.

From the previous table, which relates to external services during the study period, it was verified that the amounts of the various expenses related to external services recorded during this fiscal year are genuine amounts, registered in accordance with the Financial Accounting System, and duly supported by the appropriate accounting documentation. The recorded figures are consistent with those appearing in the accounting records and with the amounts declared in the tax returns.

5. Conclusion

In conclusion, this study reaffirms the essential role of accounting disclosure in promoting transparency, reducing tax risks, and enhancing the credibility of financial reporting. Its key contributions can be outlined as follows:

- Clarified the fundamental concepts, types, and objectives of accounting disclosure.
- Highlighted its function in narrowing information asymmetry and reinforcing compliance with accounting standards.
- Demonstrated how high-quality disclosure reduces uncertainty, strengthens financial transparency, and supports sound decision-making.
- Tax risks can arise in an economic institution as a result of several reasons, including misleading financial statements, especially the balance sheet and income statement.
- Accounting disclosure contributes to reducing tax risks by examining several accounting aspects.
- Provided practical evidence through the case study that accurate disclosure improves reporting reliability and reduces tax-related errors.
- Showed how disclosure helps enterprises comply with tax regulations, prepare fair tax declarations, and avoid penalties.
- Confirmed its value in detecting accounting misstatements, improving asset valuation, and enhancing trust between firms, tax authorities, and investors.

Collectively, these findings confirm that accounting disclosure is not only a technical necessity but also a strategic instrument for building sustainable financial performance.

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