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DIFFERENCES IN INCOME TAXES BETWEEN THE FINANCIAL ACCOUNTING SYSTEM AND THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS): A CASE STUDY OF THE NATIONAL COMPANY FOR STEEL PIPES – ALTUMEI UNIT

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ABSTRACT
This study aims to address the differences in income taxes in Algeria from a fiscal perspective on the basis of the Law on Direct Taxes and Related Duties and an accounting perspective through the Financial Accounting System and the International Financial Reporting Standards (IFRS). It seeks to assess the extent to which Algeria has adopted IFRS 12 by comparing the treatment of income taxes under the Financial Accounting System and the International Accounting Standard (IAS) 12. The research relies on both analytical and comparative methodologies in its theoretical framework. The findings indicate a degree of alignment between the Financial Accounting System and IAS 12 in treating income taxes. An applied case study was also conducted to contextualise the theoretical framework.

KEYWORDS
Income Taxes, Financial Accounting System, International Accounting Standard 12

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Introduction.

Financial accounting holds considerable global importance as the primary source of financial information necessary for economic and administrative decision-making. In light of the successive economic developments witnessed worldwide, countries have been confronted with a new reality that compels them to place greater emphasis on accounting harmonisation. Such harmonisation leads to a unified accounting language and aligns national practices with international requirements. This, in turn, facilitates the preparation of financial statements that are both appropriate and internationally acceptable through the application of international accounting standards by entities and states alike. However, the process of accounting harmonisation has faced several challenges, the most prominent of which is the lack of consistency between international accounting standards and the fiscal systems of individual countries.

As an inevitable necessity imposed by economic orientations and the growing trend towards accounting globalisation, Algeria has responded positively by undertaking a series of reforms affecting its accounting system. These reforms aimed to align it with the principles and regulations of international accounting standards. As a result, Law No. 07--11 was enacted, introducing the application of a financial accounting system derived from the International Financial Reporting Standards (IFRS). This system has been in effect since 2010.

Given the close interrelation between the accounting and fiscal systems in Algeria, the mere consideration of the implementation of the financial accounting system has raised numerous challenges for economic enterprises. These challenges stem from the divergence between the accounting principles established by the Financial Accounting System—derived from the International Financial Reporting Standards, which aim to present an accurate and fair view of a company's financial position—and the tax rules enacted independently by the state to serve specific national objectives, which may differ from those of other countries. This divergence results in discrepancies in how economic transactions are accounted for by enterprises, leading to differences in reported financial outcomes and, consequently, in the amount of tax due. In this context, the treatment of income taxes becomes somewhat ambiguous and complex, as it touches upon multiple dimensions.

This leads to the central research problem, which is framed by the following primary question:

How are differences in income taxes treated under the financial accounting system and the International Financial Reporting Standards (IFRS)?

This overarching question gives rise to a set of subsidiary questions:

1. What is meant by income tax differences, and how are they identified?
2. How is the discrepancy between accounting and taxation reconciled in determining tax liability?
3. How are deferred taxes treated under the Financial Accounting System and the International Financial Reporting Standards?
4. To what extent is there consistency in the treatment of income taxes between the Financial Accounting System and the International Financial Reporting Standards?

Study Hypotheses.

A set of hypotheses has been formulated, which are considered the most likely answers to the research questions posed. The principal hypotheses are as follows:

- Differences in income taxes arise from discrepancies between tax regulations and accounting standards.
- The legislature obliged economic enterprises to follow an accounting approach to determine the amount of tax due. Consequently, the income tax is calculated on the basis of the accounting result.
- Deferred taxes are taxes resulting from differences between fiscal legislation and accounting rules. These may take the form of assets or liabilities and are recognised in financial statements.
- Suppose that the financial accounting system is derived from the International Financial Reporting Standards. In that case, there is complete consistency between the accounting treatment of income tax under the financial accounting system and that under international accounting standards.

Significance of the Study.

The significance of this research lies in understanding the types of income taxes in Algeria and their treatment under the financial accounting system, as well as the extent to which such treatment aligns with the International Accounting Standard IAS 12.

Objectives of the Study.

This study examines economic enterprises' challenges in treating income taxes. Among its primary objectives are the following:

- To identify the differences in income taxes and how they are addressed;
- To explore the fiscal treatment of revenues and expenses and to identify and manage tax differences;
- To conduct a comprehensive comparison between the accounting treatment of income taxes under the financial accounting system and the International Financial Reporting Standards;
- To present the accounting entries related to deferred taxes.

Methodology of the Study.

To examine and analyse the various aspects of the research, a descriptive-analytical method was employed to gather information relevant to the study. Furthermore, a case study was conducted to apply the theoretical framework in a practical context.

Structure of the Study.

The study is divided into two main parts: a theoretical component and an applied component.

Part One: The Theoretical Framework of the Study.

1. Differences in income taxes

The divergence in fundamental concepts and intended objectives between accounting and taxation has led to various discrepancies in determining income for tax purposes versus financial purposes. In this section, we aim to address the nature of these differences between accounting principles and tax regulations. Furthermore, we explore the types of tax differences and the conceptual reconciliation between them.

1.1. The Nature of the Difference between Accounting and Taxation

The concept of expenditure in accounting practice differs from that in tax legislation, just as accounting income differs from taxable income. This disparity arises because accounting income is measured and determined according to generally accepted accounting principles and policies. In contrast, taxable income is defined by the provisions established by a country's tax legislator. These provisions reflect the state's political, social, and economic philosophy and multifaceted objectives.

One of the main criticisms of the divergence between generally accepted accounting principles and applicable tax laws is that the value of taxable income in a given financial period often differs from the accounting income for the same period. As a result of this discrepancy, two primary approaches have emerged regarding the determination of corporate income taxes to be included in financial statements. The first approach holds that the tax expense reported in the financial statements should equal the amount of tax payable for the period.

In contrast, the second approach asserts that the tax expense reported in financial statements should not be determined solely by the rules and provisions of a country's tax legislation. Rather, it should also consider all economic events that occurred during the year, which gave rise to the expenses and revenues recognised in the financial statements for that year. Accordingly, this approach considers the tax implications of differences between accounting and taxable income, mainly temporary or timing differences. It reflects these implications in the form of deferred tax liabilities or assets to be settled or recovered in future periods.1

1.2. Permanent and Temporary Differences2

Two main types of differences between accounting profit and taxable profit can be identified as follows:

(a) Permanent differences

Most permanent differences between accounting income before tax and taxable income arise when tax legislation exempts certain types of income from taxation or prohibits the deduction of certain expenses. These differences affect only the financial year in which they occur and, therefore, have no effect on the amounts subject to taxation or eligible for deduction in future periods. As a result, companies do not recognise any deferred tax effects arising from such differences. Consequently, the relationship between permanent tax differences and changes in future profits is considered insignificant. These differences typically result in either:

- **Costs that are permanently nondeductible for tax purposes:** Some expenses are permanently disallowed and have no future tax impact. For example, the deduction of penalties for late payments or expenses exceeding the legally permitted tax base threshold are not considered temporary differences but rather permanent ones. Consequently, they do not give rise to deferred taxes.
- **Income that is permanently nontaxable:** Certain types of income are permanently exempted by legislation and do not require the enterprise to pay taxes on them in the future. Examples include specific grants received or intragroup income between branches of the parent company, according to the relevant legislative framework. These do not result in deferred taxes either.

The impact of these differences is limited to the income statement (profit and loss accounts) and does not extend to the statement of financial position (balance sheet). The enterprise accounts for these differences in the year they occur, affecting the result for that financial period without impacting the balance sheet. These effects persist as long as the related tax legislation remains in force without amendment.

(b) Temporary Differences:

Temporary differences arise from transactions carried out by the enterprise that result in future discrepancies between the taxable and accounting profits. According to the International Accounting Standard (IAS) 12, temporary differences are the differences between the carrying amount of an asset or liability recognised in the statement of financial position and its tax base used for calculating tax.

1 Imane Zennoun, The Importance of Accounting and Tax Culture Determinants in the Application and Treatment of Deferred Tax According to International Accounting Standard No. 12 (Master's thesis, Mohamed Khider University of Biskra, Algeria, 2017), 29.
2 El-Hadj Halkoum, Lectures Entitled "Deferred Taxes", Ferhat Abbas University, 2011, 8.

To address these discrepancies, the enterprise must recognise either a deferred tax asset or a deferred tax liability, depending on whether the difference will lead to future tax deductions or future tax payments. The recognition of deferred taxes ensures that all accounting transactions and their corresponding tax effects are recorded within the same financial reporting period.1

1.3. Deferred Taxes

Deferred taxes are considered one of the components of financial reporting. The purpose of accounting for deferred taxes is to reflect the future tax effects that arise due to differences between the principles of recognition and measurement under accounting standards and those under tax legislation.

1.3.1: Concept of Deferred Tax

According to Article 134 of Annex 01 of the Financial Accounting System, "Deferred tax refers to the amount of tax on profits that is payable (deferred tax liabilities) or recoverable (deferred tax assets) in future periods." In line with International Accounting Standard (IAS) 12, deferred taxes are defined as taxes expected to be paid or recovered owing to temporary timing differences between the carrying amounts of assets or liabilities in financial statements and the amounts used to calculate taxable profit.

From the above definitions, it can be concluded that deferred taxes fall into two categories:

(a) Deferred Tax Assets:2

(b) A deferred tax asset represents the amount of tax recoverable in future periods, even though it arises from transactions carried out in prior reporting periods. The term "recoverable" implies that such amounts reduce the tax payable in subsequent periods. An example is certain expenses—such as paid holiday allowances—which are not deductible for tax purposes in the period they are recognised in the accounts. Instead, they become deductible in the following year when the actual payment of the holiday remuneration occurs. In such cases, the enterprise records deferred tax assets expected to be realised in the following period; in other words, the enterprise holds tax receivables from the tax authority that will be recovered.

(c) Deferred Tax Liabilities:3

(d) A deferred tax liability refers to amounts of tax that will be payable in future periods arising from transactions that occurred in financial periods before the period in which the tax becomes due. An example of this would be certain types of income recognised in the accounting records during a given financial year (Year *n*) but not received until subsequent periods (Year *n+1*). Such income does not appear in the taxable result of Year *n* but is instead included in the taxable income of future periods.

2. Accounting Treatment of Income Tax Differences

Before addressing the accounting treatment of income tax differences under the Financial Accounting System and the International Financial Reporting Standards (IFRS), it is necessary first to provide a brief overview of the Financial Accounting System, followed by an introduction to the International Accounting Standard (IAS) 12, which deals explicitly with the accounting for income taxes.

2.1.1: Concept of the Financial Accounting System

Law No. 07--11, issued on 25 November 2007, defines the accounting system in Article 03, referring to it as "financial accounting." According to this provision, "Financial accounting is a system for organising financial information in such a way that it allows for the storage of basic numerical data, which are then classified, evaluated, recorded, and presented in statements that provide a true and fair view of the financial position, assets, performance, and treasury status of the entity at the end of the financial year. "4

2.1.2: Conceptual Framework5

The financial accounting system incorporates a conceptual framework for financial accounting aligned with international accounting standards. It includes a chart of accounts that facilitate the preparation of financial statements on the basis of generally accepted accounting principles, such as accrual accounting, going concern, understandability and reliability, historical cost, and the precedence of economic substance over legal form.

This conceptual framework serves as a reference for the development, interpretation, and application of accounting standards and for selecting the appropriate accounting treatment in cases where existing interpretations or accounting standards do not directly address specific transactions or events.

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1 *Ibid., 9.*
2 Abderrahmane Atiya, Advanced Accounting According to the New Financial Accounting System, 1st ed. (Djitali Publishing House, 2009), 139.
3 Halkoum, op. cit., 9.
4 Chouaib Chennouf, Corporate Accounting According to International Accounting Standards, vol. 1 (Library of the Algerian Company, Boudouaou, Algeria, 2008), 14.
5 Dakkar, op. cit., 29.

The accounting framework for financial accounting also includes definitions of assets, liabilities, income, and expenses, as well as the scope of application and the principles of accounting conventions. It specifies the methods for valuing and measuring the elements of assets, liabilities, income, and expenses. Furthermore, it outlines the types of financial statements and how they should be presented.

The financial accounting system is characterised by several key features, the most notable of which are as follows:

- The adoption of an international dimension, aligning accounting practices with global standards to ensure compatibility with the contemporary system and the production of detailed information that faithfully reflects the financial position of the enterprise;
- The inclusion of clear and explicit provisions regarding principles, recording rules, valuation methods, and the preparation of financial statements, thereby reducing the likelihood of misinterpretation;
- The provision of clear, consistent, and comparable financial information that supports decision-making, thereby meeting the needs of both current and former shareholders.

2.1.3: Fiscal Aspects of the Financial Accounting System1

The implementation of international accounting standards in Algeria through the financial accounting system has led to changes in specific accounting rules previously applied under the National Accounting Plan. These changes directly affect the determination of corporate income tax.

According to the practices introduced by international standards and the financial accounting system, enterprises must include a reconciliation between accounting and taxable results in their financial statements—specifically, in the notes. This necessitates the preparation of a reconciliation schedule that transitions from the accounting result to the taxable result, which serves as the basis for calculating the CIT.

The elements that typically give rise to differences in determining the result according to the financial accounting system versus the fiscal rules in Algeria are generally concentrated in the following areas:

Rules and techniques of depreciation and impairment losses—the latter being a concept not previously recognised within the Algerian tax framework;

- The accounting treatment of finance lease transactions;
- Techniques for converting receivables and payables denominated in foreign currencies for both Algerian and foreign enterprises;
- The valuation of certain assets and liabilities on the basis of fair value at the date of acquisition;
- The accounting treatment of taxes, particularly deferred taxes;
- Changes in accounting policies and the correction of errors, the effects of which are recorded directly in equity without passing through the profit and loss accounts;
- Capital gains resulting from the disposal of investments or other exceptional operations;
- Expenses and income included in the accounting result but excluded from the taxable result, such as expenses considered luxurious or unjustified by the tax administration and income from dividends distributed by subsidiaries, as well as income and expenses related to operations with branches or joint ventures;
- Transactions not recorded in the accounting profit but considered in the taxable profit.

2.1.4: Accounting Treatment of Deferred Taxes under the Financial Accounting System

Deferred Taxes:

(a) Deferred Tax Assets

133	692	**Deferred Tax Assets** **Imposition of Deferred Tax – Assets** **Recognition of Deferred Tax Assets**	xxxxx	xxxxx

(b) Deferred Tax Liabilities

1 Hanifa Ben Rabia, Al-Wadih fi al-Muhasaba al-Maliyya Wifqan lil-Ma'ayir al-Dawliya [The Clear Guide in Financial Accounting According to International Standards], 120.

693	134	**Imposition of Deferred Tax Liabilities Deferred Tax Liabilities Recognition of Deferred Tax Liabilities**	xxxxx	xxxxx

2-2: Introduction to International Accounting Standard (IAS) 12

Accounting profit often differs from taxable profit, as tax requirements diverge from the accounting treatments applied by the entity under the International Financial Reporting Standards (IFRS). This subject is addressed in IFRS through the International Accounting Standard (IAS) 12, which accounts for current and future tax consequences.

2-2-1: Objective of the Standard

The objective of this standard is to prescribe the accounting treatment for income taxes, specifically how to account for the current and future tax consequences of the recovery (settlement) of the carrying amounts of assets and liabilities recognised in the entity's statement of financial position, as well as the tax effects of transactions and other events of the current period that are recognised in the entity's financial statements.[1]

2-2-2: Disclosure[2]

The financial statements must disclose, at a minimum, the following: the accounting policy adopted for the treatment of income tax; the types of permanent and temporary differences between accounting income and taxable income; the distinction between current tax and deferred tax; the classification of deferred tax items (such as temporary differences, carried forward losses, mergers, etc.); and the circumstances under which offsetting between deferred tax assets and liabilities is applied, including the extent to which the relevant conditions are met.

2-2-3: Accounting for Income Taxes under IAS 12

2-2-3-1: Approach to Accounting for Income Taxes

The International Accounting Standard (IAS) 12 requires the use of the **liability method** on the **basis of the financial position approach**. This method accounts for temporary differences between the accounting and tax bases of assets and liabilities. It recognises all tax effects of temporary differences—whether originating in prior years and reflected in the current period or those arising in the current period. It also includes the tax effects of future temporary differences that can be reliably estimated.

The standard prohibits the use of the **deferral method**, which is based on timing differences between accounting and tax treatments of income and expenses—an approach aligned with the income statement method.

2-2-3-2: Recognition of Current and Deferred Taxes

Recognition of Current Tax Liabilities and Assets:

The current tax for the unpaid and prior periods must be recognised as a liability. If the amount already paid for the current and prior periods exceeds the amount due, the excess will be recognised as an asset.

Recognition of Deferred Tax Liabilities and Assets:

Before recognising deferred tax liabilities and assets, the nature of temporary differences must be identified, as deferred liabilities and assets arise from temporary differences between accounting profit and taxable profit.

(a) Taxable Temporary Differences:

Taxable temporary differences arise when an expense or income is included in accounting profit in one period but is included in taxable profit in a different period. These differences give rise to deferred tax liabilities.[3]

(b) Deductible temporary differences:

A deferred tax asset is recognised for all deductible temporary differences to the extent that taxable profit will probably be available against which the deductible temporary differences can be utilised.

2-2-3-3: Measurement of Tax Assets and Liabilities

Current tax assets and liabilities relating to current and prior periods must be measured at the amount expected to be recovered from or paid to the tax authorities, using the tax rates and laws enacted or substantively enacted by the reporting date.

1 Jumaa Humidat, Expert in International Financial Reporting Standards, 2014 ed. (National Library Directorate, Amman, 2014), 716.
2 Chenouf, op. cit.,p.
3 Hamidat, op. cit., 721.

Deferred tax assets and liabilities must be measured via the tax rates expected to apply in the period in which the asset is realised or the liability is settled on the basis of the tax rates and laws enacted or substantively enacted by the date of the statement of financial position.

3: Comparison of the Accounting Treatment of Income Taxes According to the Financial Accounting System and International Accounting Standard (IAS) 12

Algeria has sought to align its accounting practices with the guidance of international financial reporting standards by adopting the Financial Accounting System (Law No. 07--11, issued on 25 November 2007). This step has led to the inclusion of several elements in financial statements that were previously not addressed in the national accounting plan, with deferred taxes being one of the most prominent topics of this study. Therefore, Algeria has adopted the International Accounting Standard (IAS) 12 through the Financial Accounting System.[1]

From what has been discussed previously regarding the treatment of income taxes under the Financial Accounting System and IAS 12, we attempt to compare the key provisions of the Financial Accounting System and IFRS concerning the treatment of income taxes in the following table:

Table 1. Comparison of the Accounting Treatment of Income Taxes According to the Financial Accounting System and International Accounting Standard (IAS) 12

Comparison Elements	Financial Accounting System	International Accounting Standard (IAS) 12
Theoretical Framework and Explanations	- The Financial Accounting System does not provide detailed or sufficient explanations regarding income taxes, especially deferred taxes, only mentioning them in the decision dated 26 July 2008.	- IAS 12 thoroughly explains income taxes, mainly through paragraphs (11-5).
Method Used for Tax Difference Treatment	- Temporary differences are recognised using the balance sheet approach. Permanent differences are recognised using the income statement approach.	- IAS 12 requires using the statement of financial position approach for analysing temporary tax differences, and for permanent differences, the standard recommends using the income statement approach.
Measurement of Tax	- According to the Financial Accounting System, current tax liabilities are measured based on taxable profit. The current tax liability is determined by multiplying the tax base by the tax rate. Deferred tax is measured using the tax rate applicable for the period the deferred tax is recognised.	- According to paragraphs 46 and 47 of IAS 12, current tax is measured using the prevailing tax rate as of the reporting date. Deferred tax is measured using the tax rates expected to be applicable when the asset is realised or the liability is settled.
Accounting Entries	- Current tax is recognised with a debit to account 59 (debtor) and a credit to account 444 (creditor). Deferred tax assets: debit to account 133 and a credit to account 692 for deferred tax liabilities. Deferred tax liabilities: credit to account 134 and debit to account 693.	- IAS 12 states that current and deferred taxes are recognised as either income or expense through the income statement (paragraph 55).
Presentation	- Current tax is presented in the balance sheet as a liability under current liabilities and in the income statement under account 695. Deferred tax liabilities are presented in the balance sheet under account 134 as a noncurrent liability and in the income statement under account 692. Deferred tax assets are presented in the balance sheet under account 133 as a noncurrent asset and in the income statement under account 693. Deferred tax assets and liabilities can only be offset if specific conditions in the direct tax law are met.	- IAS 12 requires the presentation of both current and deferred tax in the statement of financial position and their inclusion in the income statement. It also specifies the separation of current and deferred tax assets and liabilities. Paragraph 71 of IAS 12 specifies that offsetting current tax assets and liabilities is allowed if the company has the right to offset recognised amounts and intends to settle on a net basis. Paragraph 74 allows for offsetting deferred tax assets and liabilities if certain conditions are met.

Source: Prepared by the student on the basis of the Financial Accounting System and International Accounting Standard (IAS) 12.

1 Chouaib Chennouf, Financial Accounting According to International Financial Reporting Standards and the Financial Accounting System (University Publications Office, Ben Aknoun, Algeria, 2016), 178.

Part Two: Case Study of the National Company for Steel Pipe Manufacturing - ALTUMEI Branch

1- Introduction to the ALTUMEI

The National Economic Company **ALTUMEI** is a joint-stock company (SPA) established by restructuring the parent company **ANABIB** into branches in November 2000. The "ALTUMEI" company is located in the industrial zone of **Raghaya** on National Road No. 05 in Algeria. It spans an area of 50,063 m², of which 18,780 m² is covered.

The company's capital is valued at 1,739,560,000 DZD, and it works to attract customers by using advanced techniques and technologies in the manufacturing and inspection of pipes. The company strives to keep up with advancements in pipe manufacturing and has obtained international conformity certification.

The ALTUMEI performs the following tasks:

- Manufacturing spiral pipes from steel coils (**bobine metallique**).
- Internal and external coating services for pipes.
- Exporting and importing welded spiral pipes.
- Distributing products and their derivatives, such as welded pipes intended to transport hydrocarbons, water, and other uses (e.g., building supports, stakes, and packaging structures).1

2- Income Tax Differences and Their Treatment

After completing the preparation of the accounting balance sheet, the company must reprocess transactions where the accounting treatment differs from the tax treatment as stipulated by the Law on Direct Taxes and Similar Duties to determine the amount of tax due. The transactions were reprocessed as follows:

Transaction 1:

According to Article 169, paragraph 1, of the Law on Direct Taxes and Similar Duties, "gifts are nondeductible, except for those that have an advertising character, provided the value of each does not exceed 500 DZD." Therefore, the company must re-enter the amount exceeding the legal threshold (500 DZD) when calculating the taxable income, as follows:

Table 2. Amount of Gifts Not Deductible

Description	Unit Price (DZD)	Amount to be Deducted (DZD)	Number of Units	Total Amount (DZD)
Parure de stylo	1,380	1,380 - 500 = 880	30	26,400
Cartable simili cuir	2,600	2,600 - 500 = 2,100	60	126,000
Cartable port pc	3,700	3,700 - 500 = 3,200	20	64,000
Sony Xperia Dual	52,016.81	52,016.81 - 500 = 51,516.81	12	618,201.72
Sony Xperia XA	33,529.41	33,529.41 - 500 = 33,029.41	10	330,294.10

Source: Prepared by the student on the basis of the company's documents.

Transaction 2:

On the occasion of the founding anniversary of UGTA, the company organised a lunch on 24 February for its employees for 879,480 DZD. (Appendix No. 05)

Transaction 3:

On 8 March, the company organised a party celebrating International Women's Day for 46,430 DZD. (Appendix No. 06)

Transaction 4:

On 1 May 2017, the company organised a lunch for its employees on Labour Day for 483,021 DZD. (Appendix No. 07)

Transactions 02, 03, and 04:

According to Article 169, paragraph 1 of the Law on Direct Taxes and Similar Duties, these are nondeductible for tax purposes and must be reintegrated when determining taxable income. The total amount for these events is 994,364 DZD, including taxes.

1 Internal Sources of the Organization

Transaction 5:

The company provides 10,000 DZD for each retiring employee as part of its internal policy. A total of 12 employees retired in 2017, meaning that the total amount for these expenses was 120,000 DZD. According to Article 169, this amount is nondeductible for tax purposes and must be reintegrated.

Transaction 6:

The company did not comply with the provisions of the collective labour agreement regarding the organisation of training sessions and internships within or outside the company, whether for its employees or external trainees, as a result of the company's failure to adhere to Article 06 of the collective labour agreement, a financial penalty of 1% of the annual wage bill within the company was imposed, amounting to 342,485.75 DZD. According to Article 56 of Law 02/97 issued on 31 December 2007, this penalty is nondeductible for tax purposes and must therefore be added to the accounting result when determining taxable income.

Transaction 7:

The company has recorded provisions in the accounts as expenses, amounting to 17,531,605.5 DZD. However, these expenses are not deductible for tax purposes until they are realised. Therefore, the company must reintegrate these amounts when determining taxable profit.

Transaction 8:

The company owns 8 passenger cars.

Table 3. Depreciation of Passenger Cars Not Deductible for Tax Purposes

Car Type	Total Value (DZD)	Accounting Depreciation (DZD)	Tax Depreciation (DZD)	Amount to Be Reintegrated (DZD)
Chevrolet Sail	1,120,000	130,666.66	116,666.66	14,000
Chevrolet Sail	1,120,000	130,666.66	116,666.66	14,000
Chevrolet Sail	1,120,000	130,666.66	116,666.66	14,000
Chevrolet Sail	1,120,000	130,666.66	116,666.66	14,000
Peugeot 301	1,370,500	274,100	200,000	74,100
Peugeot 308	2,276,500	455,300	200,000	255,300
Renault Symbol	1,352,000	270,400	200,000	70,400
Renault Symbol	1,352,000	270,400	200,000	704,000
Total	**10,831,000**	**1,792,866.68**	**1,266,666.64**	**526,200**

Source: Prepared by the student on the basis of the company's documents.

Transaction 9:

At the end of the year, during the inventory process and after comparing the cost of products under construction with their market value, the company found a decline in the value of work-in-progress products, amounting to 4,647,785.9 DZD. The company recognised the impairment loss. However, from the perspective of the tax administration, provisions for impairment losses are not deductible unless they are supported by documentation. Therefore, it must be reintegrated when determining the taxable income.

Transaction 10:

Recoveries from impairment losses and provisions are tax-exempt when determining taxable profit. The total amount of these recoveries is [amount]. The company included these revenues when determining the accounting profit, which is inconsistent with the tax law. Therefore, this amount must be deducted when determining taxable income.

3- Determining Taxable Income

Table 4. Determining Taxable Income

I. Accounting Net Income for the Financial Year	Profit	77544327.94
	Loss	
II. Recoveries		
Real estate expenses not directly allocated to operations		
Advertising gifts nondeductible		1164895.82
Financial advertising and sponsorships nondeductible		
Reception expenses nondeductible		994364
Nondeductible subscriptions and gifts		120000
Taxes and fees nondeductible		342485.75
Provisions nondeductible		17531605.5
Depreciation nondeductible		526200
Nondeductible research and development expenses		
Nondeductible assets related to lease contracts (lessor-lessee)		
Corporate income tax	Taxes due on profits	
	Deferred tax change	
Nondeductible impairment losses and other recoveries		4647785.9
Nondeductible fines and penalties		
Other recoveries		
Total recoveries		66743746.9
III. Deductions		
Capital gains from the disposal of reinvested assets		
Income from dividend distribution subject to corporate income tax or exempted		
Depreciation related to lease contracts (lessor)		
Rent outside the financial result (lessor-lessee)		
Complementary depreciation		
Other deductions:		217092030.18
Total Deductions		217092030.18
IV. Carryforward Losses		
Losses from prior years		
The total amount eligible for recovery		
Taxable Income		-72803956.16

Source: From the company's documents, Appendix No. 12.

On the basis of the previous table, the taxable income was determined to be -72,803,956.16 DZD, which serves as the tax base (taxable profit) upon which the tax due for the company in 2017 is calculated.

Note:

The company owns three production machines, **MACHINE SP1200**, **MACHINE ATIS**, and **LIGNE REVETEMENT**, which are depreciated using units of the production method. However, this method is not recognised for tax purposes. The direct tax law specifies that depreciation should be calculated via the straight-line method.

This difference has resulted in temporary differences, which must be reprocessed through the table to determine taxable income. However, the company did not reprocess it using the taxable income determination table. The treatment is as follows:

Machine ATIS

Table 5.

Accounting Depreciation	11 813 688,32
Tax Depreciation	60205932.01
Temporary Difference	48 392 243,69
Treatment through Table 9	The difference is deducted from the table for determining taxable income.

Source: From the company's documents, Appendix No. 13

MACHINE SP1200

Table 6.

Accounting Depreciation	6922787.77
Tax Depreciation	5011510.2
Temporary Difference	1911277.50
Treatment through Table 9:	The difference is added to the table for determining taxable income.

Source: From the company's documents, Appendix No. 13

LIGNE REVETEMENT

Table 7.

Accounting Depreciation	17864137.77
Tax Depreciation	1622304.71
Temporary Difference	16241833.06
Treatment through Table 9	The difference is added to the table for determining taxable income.

Source: From the company's documents, Appendix No. 13

4: Determining Taxable Income After Adjusting for Depreciation of Machines via the Units of Production Method

After depreciation is reprocessed, the taxable income is as follows:

Taxable income = accounting income + recoveries – deductions

Recoveries:

Recoveries from previous years + Depreciation amounts reintegrated

66,743,746.08 + 18,153,110.63 = 84,896,856.71 DZD

Deductions:

Previous deductions + Depreciation amounts reintegrated

217,092,030.18 + 48,392,243.69 = 265,484,273.87 DZD

Taxable Income:

77,544,327.94 + 84,896,856.71 – 265,484,273.87 = -103,043,089.22 DZD

According to the financial accounting system, specifically, the decision issued on 26 July 2008, as well as the International Accounting Standard (IAS) 12, specifically paragraphs 34, 35, and 36, when a tax loss occurs, companies are required to recognise a deferred tax asset for the loss, which will be recoverable in future periods when the loss is carried forward.

Deferred Tax Asset = Tax Loss * Tax Rate

-103,043,089.22 * 19 = 19,578,186.95 DZD

Recognising the deferred tax asset for the tax loss results in the need to adjust:

- The change in the deferred tax by decreasing and the accounting income by increasing is as follows:

Change in Deferred Tax = Deferred Tax Liabilities - Deferred Tax Assets

Before the deferred tax asset was recognised, the change in deferred tax was 41,416,409.11 DZD.

The Change in Deferred Tax After Adjustment = Previous Change in Deferred Tax - Deferred Tax Asset for Taxable Loss

41,416,409.11 - 19,578,186.95 = 21,838,222.16 DZD

For accounting income, recognising the Deferred Tax Asset from account 133 on the debit side and accounting for 693 on the credit side results in an increase in accounting income by the amount of the deferred tax asset related to the negative taxable income, as follows:

Adjusted accounting income = previous accounting income + amount offered tax asset for negative taxable income

77,544,327.94 + 19,578,186.95 = 97,122,514.89 DZD

After these adjustments are made, the taxable income determination table is as follows:

Table 8. Determining Taxable Income

V. Accounting Net Income for the Financial Year	Profit	77544327.94
	Loss	
VI. Recoveries		
Real estate expenses not directly allocated to operations		
Advertising gifts nondeductible		1164895.82
Financial advertising and sponsorships nondeductible		
Reception expenses nondeductible		994364
Nondeductible subscriptions and gifts		120000
Taxes and fees nondeductible		342485.75
Provisions nondeductible		17531605.5
Depreciation nondeductible		526200
Nondeductible research and development expenses		
Nondeductible assets related to lease contracts (lessor-lessee)		
Corporate income tax	Taxes due on results	
	Deferred tax change	21838222.16
Nondeductible impairment losses, other recoveries		4647785.9
Fines and penalties nondeductible		
Other recoveries		18153110.63
Total Recoveries		84896856.71
VII. Deductions		
Capital gains from the disposal of reinvested assets		
Income from dividend distribution subject to corporate income tax or exempted		
Depreciation related to lease contracts (lessor)		
Rent outside the financial result (lessor-lessee)		
Complementary depreciation		48392243.69
Other deductions		217092030.18
Total Deductions		265484273.87
VIII. Carryforward Losses		
Losses from prior years		
The total amount eligible for recovery		
Taxable Income		-103043089.22

5) Accounting Entries for Deferred Taxes

Provisions:

- **Accounting Treatment of Deferred Taxes for Provisions Recorded in Previous Years:**
- Before 2017, the company recorded several provisions, which resulted in the recognition of deferred tax assets related to these provisions. In 2017, some of these provisions were used, and others were reduced, as shown in the following table:

Table 9. Provisions used and curated in 2017

Description	Balance as of 31/12/2016 (DZD)	Provision Reduced in 2017 (DZD)
Provisions for noncurrent liabilities	13,880,477.90	105,363,331.90
Provisions for paid leave	10,405,534.89	10,405,534.89
Provisions for paid leave for managers	3,887,782.27	3,887,782.27
Provisions for unused paid leave	5,275,291.45	5,275,291.45
Provisions for unused paid leave for managers	1,318,822.86	1,318,822.86
Provisions	29,310,362.87	29,310,362.87
Provisions for manager-related liabilities	10,951,124.59	10,951,124.59
Provisions for variable bonuses	6,925,245.60	6,925,245.60
Provisions for variable bonuses for executives and managers	2,587,454.40	2,587,454.40
Provisions for legal disputes	200,000	200,000
Provisions for retirement benefits	29,048,622.17	29,048,622.17
Total	**292,853,869.86**	**205,273,573**

Source: From the company's documents, Appendix No. 16

When the provisions were used and cancelled, the company recovered the deferred tax asset that had been recognised upon recording the provisions. This was done as follows:

Appendix No. 17

Amount of Deferred Tax Asset Recovered = Used Provision or File * Tax Rate

205,273,573 * 19% = 39,001,978.87 DZD

692		Deferred Tax Asset	39001978.87	
	133	Deferred Tax Assets		39001978.87
		Recognition of Deferred Tax Assets		

Recognition of Deferred Taxes for Provisions Recorded in 2017:

In 2017, the company recognised deferred tax assets for the provisions it recorded during the same year, as follows:

Table 10. Provisions Recorded in 2017

Description	Amount (DZD)
Provisions for legal disputes	200,000
Provisions for paid leave	9,399,069.58
Provisions for paid leave for managers	2,349,767.40
Provisions for unused paid leave	3,200,729.49
Provisions for unused paid leave for managers	800,182.37
Provisions for variable bonuses	1,069,200
Provisions for variable bonuses for executives and managers	267,300
Provisions for noncurrent liabilities	245,356.65
Total Amount	**17,531,605.50**

Source: Prepared by the student on the basis of the company's documents.

The accounting entry was as follows:

Amount of Deferred Tax Asset = Provisions Recorded * 19

17,531,605.49 * 19 = 3,331,005.04 DZD

133	692	Deferred Tax Asset Imposition of Deferred Tax Asset Recognition of Deferred Tax Asset	3331005.04	3331005.04

Depreciation:

The company owns three production machines, which are depreciated according to the units of the production method. Below are the necessary details regarding these machines:

Table 11. Differences between accounting depreciation and tax depreciation

Description	MACHIN ATIS	MACHIN SP 1200	LIGNE REVETEMENT
Accounting Depreciation	11,813,688.32	6,922,787.77	17,864,137.77
Tax Depreciation	60,205,932.01	5,011,510.20	1,622,304.71
Temporary Difference	9,194,526.30	1,911,277.57	16,241,833.06

Source: From the company's documents, Appendix No. 16

The company has recorded deferred tax liabilities for the temporary differences as follows: **Appendix No. 18**

For the MACHIN ATIS machine

693		Deferred Tax Liabilities	9194526.3	
	134	Imposition of Deferred Tax Liabilities		9194526.3
		Recognition of Deferred Tax Liabilities		

For the machine MACHINE SP1200

134		Deferred Tax Liabilities	363142.47	
	693	Imposition of Deferred Tax Liabilities		363142.47
		Recognition of Deferred Tax Liabilities		

For the machine **LIGNE REVETEMENT**

134		Deferred Tax Liabilities	3085948.28	
	693	Imposition of Deferred Tax Liabilities		3085948.28
		Recognition of Deferred Tax Liabilities		

Note

Some accounting treatments of deferred taxes in the company contained errors, which we clarify and address as follows: The company owns two machines, **MACHINE SP1200** and **LIGNE REVETEMENT**, which are depreciated using the units of production method. However, this method is not accepted for tax purposes, as the direct tax law and similar duties prescribe the straight-line depreciation method for these machines. As a result of this difference, temporary tax differences emerged as follows:

Description	MACHINE SP1200	LIGNE REVETEMENT
Accounting Depreciation	6,922,787.77	17,864,137.77
Tax Depreciation	5,011,510.20	1,622,304.71
Temporary Difference	1,911,277.57	16,241,833.06

Source: Prepared by the student on the basis of the company's documents.

The company has recognised deferred tax liabilities (reversed entry from account 134 to account 693), which is incorrect. The accounting depreciation value is greater than the tax depreciation value; therefore, these temporary differences result in **deferred tax assets** and not **deferred tax liabilities**, as the company recorded. The correction should be handled as follows:

Cancel the previous entry.

693		Deferred Tax Liabilities	3449091.02	
	134	Imposition of Deferred Tax Liabilities		3449091.02
		Recognition of Deferred Tax Liabilities		

New Accounting Entry

New Accounting Entry:

Amount of Deferred Tax = Temporary Difference * 19

18,153,110.63 * 19 = 4,490,91.02 DZD

133		Deferred Tax Assets	3449091.02	
	692	Imposition of Deferred Tax Assets		3449091.02
		Recognition of Deferred Tax Assets		

The company has not recognised the deferred tax asset for the taxable loss, which contradicts the financial accounting system as per the decision issued on 26 July 2008 (Section 04), which defines the rules for the recognition and accounting of deferred taxes, as well as the International Accounting Standard (IAS) 12, specifically paragraphs 34, 35, and 36.

The accounting entry should be as follows:

Deferred Tax Asset = Tax Loss * Tax Rate

-103,043,089.22 * 19 = 19,578,186.95 DZD

133		**Deferred Tax Assets**	39001978.87	
	692	Imposition of Deferred Tax Assets		39001978.87
		Recognition of Deferred Tax Assets		

Calculation of the Change in Deferred Tax:

Change in Deferred Tax = Deferred Tax Liabilities - Deferred Tax Assets

Table 12. Table for Calculating the Change in Deferred Tax

Description	Amount (DZD)
Deferred Tax Liabilities for Depreciation	914,526.30
Deferred Tax Assets for Provisions	3,331,005.045
Deferred Tax Assets for Depreciation	3,449,091.02
Deferred Tax Assets for Taxable Loss	19,578,186.95
Total Deferred Tax Assets (Debit Balance)	**(39,001,978.87)**
Total Deferred Tax Liabilities (Debit Balance)	**(12,643,695.855)**
Change in Deferred Tax	**2,183,822.1555**

Source: Prepared by the student on the basis of the company's documents.

Results of Hypothesis Testing.

On the basis of the processing method we employed, which combined both theoretical and field studies, the following results were obtained during the loan selection process:

Hypothesis 1:

Income tax differences are differences resulting from the discrepancy between accounting and tax rules, consisting of two elements: permanent differences and temporary differences. This was confirmed through theoretical and practical aspects; therefore, the hypothesis is valid.

Hypothesis 2:

Tax is determined at least on the basis of profit, which is determined according to accounting rules. This hypothesis is invalid, as taxes are determined on the basis of profit, which is determined according to tax legislation.

Hypothesis 3:

Deferred taxes are taxes expected to be paid or recovered owing to temporary timing differences between the carrying amounts of assets or liabilities in the financial statements and the amounts used to calculate taxable profit, which are recognised in accounting. Therefore, the hypothesis is valid.

Hypothesis 4:

There is complete alignment between the accounting treatment of income tax under the Financial Accounting System and the International Financial Reporting Standards (IFRS). This hypothesis is not valid. After comparison, we identified a single difference in the treatment of income taxes between the Financial Accounting System and IAS 12. IAS 12, in paragraph 47, specifies that the deferred tax should be measured using the tax rate expected to apply when the deferred tax is realised. In contrast, the financial accounting system measures deferred taxes using the rate prevailing at the time the deferred tax is recognised for the first time. In general, there is an alignment between the financial accounting system and IFRS in the treatment of income taxes.

On the basis of the results obtained, the following recommendations can be made:

- The company under study should organise training courses for those responsible for accounting regarding deferred taxes.
- At least one qualified tax specialist should be provided by the company under study.

- Accountants must continuously monitor tax laws and regulations, as they are subject to constant changes.
- There is a need to align the legal and legislative framework in Algeria with the updates brought by the financial accounting system to reduce the divergence and conflict between accounting and taxation.
- Strengthening the decrees and laws that include sufficient explanations for handling deferred taxes.
- Activating the auditing function within the company to detect errors in the treatment of income taxes to avoid exposure to tax penalties and fines.

Conclusions.

The discussion of "Accounting for Income Tax Differences under the Financial Accounting System and International Financial Reporting Standards," the legal framework for income tax in Algeria, was addressed to clarify the various rules and procedures for determining this tax and its types. This study also covered the accounting treatment of deferred taxes within the Financial Accounting System, and a comparison was made between income tax treatment under the Financial Accounting System and International Financial Reporting Standards, specifically the International Accounting Standard (IAS) 12. The study revealed that there is a significant alignment between the two. After addressing the treatment of income taxes from both a tax and accounting perspective, it was found that there is a difference in determining the amount of taxable profit. This difference arises from the varying treatments of transactions carried out by the company due to the divergence between accounting rules, which aim to provide an accurate and fair view of the company's financial position, and tax rules, which serve other purposes. To preserve the objectives of accounting and an accurate and fair view of the company's financial position, companies are only required to determine profit via tax rules. This results in the emergence of tax differences, which are divided into permanent and temporary tax differences, leading to deferred taxes.

Future prospects of the study.

Although we have attempted to cover all aspects of the topic, some points could not be included in the presentation, and others were not elaborated upon. To expand further, we present a set of questions and topics that remain open for research and study, which include the following:

- The technical organisation of income tax in Algeria
- Management of deferred taxes and their treatment in Algeria
- Adapting the tax system to the requirements of the Financial Accounting System in Algeria
- The impact of deferred taxes on the quality of financial statements
- The relevance of the financial accounting system in meeting the requirements of the tax system
- Tax investigations in economic enterprises
- The role of internal auditing in reducing tax risk

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