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The impact of the adoption of IFRS on turnover: a comparative analysis with the Moroccan accounting framework

L'impact de l'adoption des normes IFRS sur le chiffre d'affaires: une analyse comparative avec le référentiel comptable marocain

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Abstract

The development of financial markets, the importance of the transparency of financial information disclosed, and the consequences of globalization have led to changes in accounting science, particularly in its financial reporting dimension. In the case of Morocco, the Moroccan accounting framework remained frozen in the face of changes induced by IFRS standards. The process of convergence of accounting standards with international standards (IFRS) has so far been limited to financial sector groups and listed companies.

Our article discusses the impact of the introduction of IFRS on the way of calculating turnover.We will seek to show, on the basis of a comparative analysis, how the change in accounting standards could affect the net income of Moroccan adoptive companies.

Keywords: IFRS standards, general accounting standards, Moroccan accounting standards, net income.

Résumé

Le développement des marchés financiers, l'importance de la transparence des informations financières divulguées, les conséquences de la mondialisation ont fait évoluer la science comptable, notamment au niveau de sa dimension relative à l'information financière. Pour le cas du Maroc, le référentiel comptable marocain est resté figé face aux changements induits par les normes IFRS. Le processus de convergence de normes comptables avec les référentiels internationaux (IFRS) s'est pour l'instant limité aux groupes du secteur financier et aux sociétés cotées.

Notre article aborde l'impact de l'introduction des normes IFRS sur le mode de calcul du chiffre d'affaires, Nous chercherons à montrer, sur la base d'une analyse comparative, de quelle manière le changement des normes comptables pourraient affecter le résultat net des entreprises marocaines adoptives.

Mots clefs : Normes IFRS, code général de la normalisation comptable, référentiel comptable marocain, résultat net

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Introduction

The accounting field completes a process of harmonization that leads to the uniqueness of accounting standards. This is clearly very beneficial to the fluidity and internationalization of financial markets, which has created the need for an instrument to provide reliable and common financial information to be understandable by all market participants. The IAS/IFRS international standards are fully in line with this, they represent a shift from a legally-based accounting approach to a financial reporting approach that favours investors and seeks to preserve confidence in financial markets.

Finally, the existence of purely national accounting rules is in no way legitimate, as stated by the founder of the IASC , Henri BENSON: "Our activity is cross-border and trade in goods and services is international. If a multinational company is listed in a market economy or uses the global capital market, there should be a standard, known around the world to evaluate its operations".

The objective was, in fact, to set up a single accounting framework that should allow all companies to speak the same language when it comes to financial reporting. This reference framework has a body of standards that are constituted and recognized internationally.

Accounting is regarded as the basis of financial communication, its fundamental objective is the production of high-quality annual accounts to meet the expectations of the main users of financial information. As a result, any changes will impact the financial data published by the firm (Hoarau and Teller, 2007, Boukari and Richard, 2007).

Therefore, turnover in Moroccan accounting standards does not have the same definition and importance in international standards. The latter are based on IFRS 15, as well as their accompanying interpretations, to address this key concept reflecting the company's commercial performance, which undoubtedly determines the financial performance created by the firm.

The Moroccan accounting framework providing that turnover is represented by the amounts of invoices, whereas the IFRS[1] normative framework provides a different valuation.

In this article, we seek to analyse the consequences of the implementation of IFRS standards on the way of calculating turnover on net income, through the evaluation of the effect on value added, financial result, and current income. We will try to show, on the basis of these various

[1] International Financial Reporting Standards

indicators, how the change in accounting standards could affect the financial statements of Moroccan companies listed on the Casablanca stock exchange.

Our article tries to present the first impacts of the introduction of IFRS standards in Morocco through the analysis of the effect of the adoption of IFRS standards on the method of calculation of turnover. First, we will present the context of the adoption of IFRS standards in Morocco, then we will detail the method of recognition of turnover in Moroccan and international standards. And finally, we will present the testable predictions in terms of turnover.

1. Overview of the context of IFRS adoption in Morocco

International accounting standards IFRS has introduced a real cultural revolution in Europe and the world by advocating more real accounting instead of current accounting based on more legal and tax information and historical cost.

In this regard, and at a conference held at the ISCAE in Casablanca, Mr. Gatet said that this accounting framework is an opportunity to optimize financial processes, from account production to performance management and both external and internal factors financial communication.

In a context marked by the opening of economies on an international scale and the proliferation of international trade, the Moroccan accounting framework can no longer meet the needs of all partners (domestic and foreign). As a result, its continued adoption is a hindrance to the development of economies. Indeed, the more an economy is open to the international market, the more it is called upon to speak the language in force at the international level. This explains the logic of the harmonization of the accounting system allowing States to integrate the international dimension and the requirements of foreign investors and financial markets in general.

The adoption of IFRS international accounting standards in MOROCCO was:

- A response to the international context in view of the degree of openness of the Moroccan economy at the international level;
- A response to recommendations issued by international bodies.

1.1. A response to the requirements of the international context

In Morocco, the adoption of IFRS was driven by the requirements of the international context. Indeed, several studies have been carried out to explain the factors that guide the choice of adoption of international standard listed by Moroccan companies. The results revealed that the

size of the enterprise, the presence of institutional shareholders as well as membership in a financial sector gives Moroccan companies more incentives to make the transition to international accounting standards.

Thus, it was concluded that the choice of transition to IFRS is directly related to the nature of the company and the environment in which it develops and promotes its relationships. The larger the company or the financial sector, the more foreign partners it has and tends to invest its funds in international financial markets.

Moreover, we can say that for Moroccan companies, whether listed or unlisted, the adoption of IFRS international accounting standards constitutes, essentially, a response to the requirements to adopt the accounting language adopted by their international partners. Indeed, the existence of a single standards framework facilitates the readability and comparability of accounts, and therefore constitutes an additional confidence factor for the investor to reinforce confidence, stimulate investment and foster business development and growth.

1.2. A response to recommendations issued by national and international bodies

a. Recommendations issued by the World Bank

In 2012, the World Bank's experts made recommendations for improving the accounting framework adopted, as part of a report iii assessing compliance with standards and codes, including audit and accounting.

Indeed, the report refers to an accounting framework that does not allow for a real reflection of the economic situation of companies. Indeed, according to the report, the main points that we retain are:

- Largely inspired by the Fourth European Directive (and its transcription into French law), the Moroccan framework for the preparation and presentation of financial statements is fundamentally different from the framework approved by the IASC, Moroccan social accounting does not give the most realistic picture of the economic situation of companies. While these rules can meet most of the immediate objectives of social accounting, they would not be appropriate to the consolidated accounts and are not appropriate to the needs of users of the financial statements of listed companies.
- Measures should be taken to introduce the requirements to present consolidated accounts for all credit institutions, insurance undertakings, public-sector companies and all other groups exceeding certain thresholds (for example, turnover, total balance sheet and/or personnel).

In order to take these recommendations into account, the Moroccan authorities have undertaken significant measures to improve and strengthen the accounting system.

This has been reflected in the introduction of the requirement to present consolidated accounts, in accordance with current legislation or in accordance with IAS/IFRS international accounting standards, for all credit institutions, insurance companies and companies making public offerings.

Thus, it has been demonstrated that this adoption of international accounting standards is a direct response to the recommendations issued in order to achieve the objective of transparency and best meet the information needs of investors.

b. Recommendations issued under the Moroccan Code of Good Corporate Governance Practices

The Moroccan Code of Good Corporate Governance Practices has highlighted in the section on « TRANSPARENCY AND DISSEMINATION OF INFORMATION FINANCIAL» on the need to provide shareholders or associates with timely and cost-free access to accurate, reliable and complete information on all significant aspects of the business. This information must be accessible and easily interpretable to help shareholders and investors in their decision-making process.

For example, it was recommended that financial reporting be consistent with accepted accounting standards and that the company prepares and publishes consolidated financial statements when controlling other entities. It is recommended that it prepare these consolidated accounts by adopting IFRS standards.

2. Impact of the change in the way turnover is calculated

The literature on the effects of adopting IFRS on accounting figures is abundant, the present work tries to identify the problematic and the effects of the application of IFRS standards on the method of calculation of turnover and to analyse its impact on the main net income item used to assess the financial performance created.

The Moroccan accounting system is strongly inspired by the French accounting system by maintaining the same legal-The French PCG of 1982 and the French PCG applicable to consolidated financial statements (CRC 99-02), respectively, were inspired by the French Code Général de la normalisation comptable of 1999 and the basic consolidation framework drawn up in 2005.

Under its conditions, the effects of the transition of Moroccan groups can be compared with the effects of the transition of French groups to IFRS and more fundamentally countries to a continental European accounting system (Nobes, 1992).

2.1. Recognition, valuation and recognition of turnover in Moroccan accounting standards

To calculate the various intermediate management balances, the starting point is turnover, which does not have the same definition in Moroccan or IFRS standards. The IFRS standards are based on IFRS 15, which replaced IAS 11 "Construction contracts" and IAS 18 "Ordinary income" and their related interpretations.

In Morocco and with reference to the CGNC[2], turnover represents all transactions between the undertaking and third parties in the context of normal and ongoing activities.

Turnover includes sales of goods and production sold of goods and services excluding stored or fixed production and subsidies, royalties and other day-to-day management products.

According to the principle of specialization of exercises, the products must be related to the exercise that actually concerns them. As regards the recognition and valuation of turnover, two cases may arise: transactions forming part of long-term contracts and transactions excluding long-term contracts.

Turnover accounting for goods which does not concern long-term contracts, the recording is made as soon as the transfer of ownership is made. Indeed, the parties to the sales contract must set the price and the conditions of delivery for the good concerned.

For the provision of services, turnover is normally recorded as soon as the service has been provided.

In the case of long-term contracts, that is to say contracts not completed at the end of a financial year, the assessment of turnover is generally based on progress accounting or on completion accounting.

Progress accounting is the recognition of the turnover achieved as and when the work is completed. The choice of this method is conditional on the fulfilment of certain conditions, such as the possibility to estimate in a reliable and objective way the progress of the work at the end of the financial year, only the profits realized will be recorded in the annual accounts.

[2] the general code for accounting standardization

The accounting at completion, as its name suggests, consists in recording the turnover only at the delivery of the good or at the completion of the service. This valuation method will have a negative impact on the company's performance because the accounting is recorded only at the end, which distorts the principle of specialisation, which stipulates that expenses and income are linked to the financial year in question. The most used method is that of progress, which is similar to the international standard in IFRS standards.

2.2. Definition and recognition of turnover in IFRS standards

The conceptual framework of international IFRS defines income and expenses as changes in assets and liabilities. Income is the increase in economic benefits of the period resulting in increases in equity not related to shareholder contributions.

The international standard is based on IFRS 15, which replaced IAS 11 "Construction contracts" and IAS 18 "Ordinary income" and their related interpretations.The standard applies to financial years beginning on 1 January 2018.

The new standard sets out a single global model that entities must use to account for revenues from contracts with clients. Under the basic principle of the new standard, a company must account for revenue from ordinary activities in a manner that presents the promised transfers of goods or services at the amount that corresponds to the consideration (i.e. payment). that the entity expects to receive in exchange for those goods or services.

Entities have a four-step model to determine when and for what amount to record revenue.

a. Contract Identification

Under the new standard, a contract is an agreement between two or more parties, creating reciprocal obligations, in some cases, contracts can be grouped together and accounted for as one. Contracts may be written, oral or implied. A contract exists if:

- Price recovery is likely;
- Has a commercial livelihood;
- Rights to goods or services and settlement conditions can be identified;
- It is accepted and the parties are committed to meeting their obligations.

b. Identification of Benefit Obligations

The second stage stipulates that companies must identify each promise to provide a service contained in a contract with a customer. Two criteria must be met to identify a distinct benefit obligation:

- Client may benefit from the good or service taken in isolation;
- The promise made by the company to transfer the good or service is identifiable separately.

c. Determination of the transaction price

By definition, the transaction price is the amount of consideration the company expects to be received in exchange for the transfer of the good or service to the customer. To assess this amount, a company must take into account the following factors:

- The share of the variable part;
- Valuation of non-monetary counterparty;
- The amount payable to the client;
- Significant Funding Component.

For each service obligation, a selling price must be determined, we can distinguish two cases:

- The selling price is observable, this is the case when the selling price is charged for similar transactions;
- The selling price is estimated on the basis of several elements such as: the costs incurred, the price that customers would be willing to pay on the market to acquire the good or service..

d. Recognition of income

The corporation records the income when control of the good or service is transferred to the client, the transfer may be made on a given date or on an ongoing basis.

In terms of accounting, we can distinguish between two cases:

- Continuous accounting using the method that reflects the degree of progress of the service;
- Accounting on a given date, in this case the date chosen is that of the transfer of control of the good or service to the client.

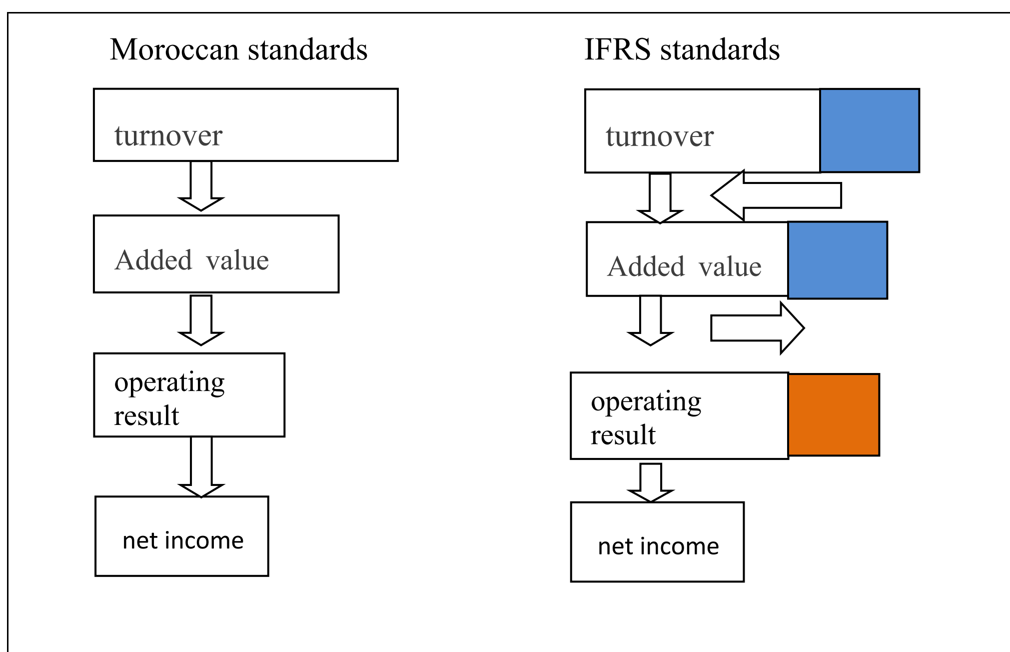
3. Presentation of testable predictions of value added, financial result, current income before tax and net income

Turnover under IFRS is assessed on the basis of the consideration received; the amount of turnover shown in the accounts may be different from that shown on the invoices.

In order to retain customers, companies can offer them advantageous settlement terms, for example by granting them significant settlement periods, the latter will be considered as short-term credits. and therefore the amount of cash flows to be received will be discounted to reflect

the present value of the realized turnover. The difference between future flows and the discounted amount will change the immediate or deferred financial income (Nobes, 2012, Barker, 2010). The company's financial result is then directly affected by the change in the reference framework, due to a transfer of part of the turnover in financial products. The expected differences in terms of turnover valuation can be summarized as follows.

Figure 1: Change in turnover, value added and financial result in IFRS.



Source: Catherine GRIMA,(2017)

We expect a decrease in IFRS revenue as a result of changes to IFRS 15 in recognition and recognition of revenue, the value added should generally decrease in IFRS standards compared to Moroccan standards. The decrease in turnover, which should be offset by the increase in financial products as a result of deferred customer settlements, is not fully offset since the portion of financial income from prior years will be directly recognised as assets in the balance sheet and will therefore have no impact on the current year's result. current income before tax must therefore be lower in IFRS than in PCG standards, and by a similar reasoning, the net income should follow the same evolution since the other elements of the calculations will remain stable and not impacted by the implementation of IFRS standards.

Since financial data must be modified as a result of the implementation of IFRS, the observation of a net result that would not fluctuate would mean that management sought to offset the influence of the standards.

Conclusion

The objective of this study is to determine the effect of the adoption of IFRS on the way turnover is calculated and its impact on certain indicators measuring the company's performance. Indeed, the use of IFRS necessarily implies a different way of recording certain accounting items. As a result, the use of IFRS leads to changes in the way financial data are valued and accounted for. Take for example the Moroccan accounting standards, which consider the invoice as an essential element of proof and recording of purchases and sales transactions. While, the consideration of IFRS implies that the valuation will not be based solely on invoice amounts (Bohusova and Nerudova, 2009), but also on the transfer of benefits to customers.

In the case of turnover, the Moroccan accounting standards (NCM) require the full recording of the receivable in turnover, whereas the IFRS standards, in the case of deferred settlement of the receivable, provide that the receivable must be discounted. The difference between future flows and the discounted amount will affect immediate or deferred financial income (Nobes, 2012, Barker, 2010).

We can therefore foresee the change in certain financial elements for companies, in light of the changes involved in the implementation of IFRS standards (Disle and Noël, 2007; Dumontier and Maghraoui, 2006; Raffournier, 2004; Dumontier and Maghraoui, 2007).

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