

## Inflation and Re-Evaluation FIS in Algeria

Bouaziz Sheikh\*

Higher Study in commercial Sciences and Financial, Alegria

### Abstract

This article represents the inflations and the revaluation of constant assets and it's handiest of the benefits, additionally its risks. Additionally to the truth that it encourages inflation, for businesses structurally in deficit, it always develop their running losses, above all for many who do not need the possibility to pass the new a number of depreciation on costs. Clear descriptions of effects of inflation on the company and its investments, accounting history and history of statutory revaluation in Algeria, positive effects of the revaluation, and negative effects of the revaluation explained.

**Keywords:** Inflation; Revaluation; Business; Algeria; Investments

### Introduction

The rigidity of certain accounting standards do not allow the Algerian public companies to accurately define the real value of the assets, they have in their possession when they constantly suffer the effects of rising inflation; result of currency dépréciations and/or devaluation of the dinar facing our country in the wake of economic reforms which it has committed to from 1988.

These principles include the rule of historical cost (principle of nominalism) gold monetary stability. This rule is to record the elements priorité constitutive de droit réel tea company's assets at their value at the date of acquisition or production. This principle, as is of course there, not yours account the fluctuation of the price index.

At end- to remedy such a situation, the Algerian parliament has legally established tea revaluation of depreciable property; thanks to her public companies governed by commercial law shall be entitled to correct the initial values (acquisition cost and amortization) of their assets.

The revaluation is the main theme of this report which we try to highlight the three revaluations established since 1990–1996 for a comparative study. As for practicality, we would take as an example the application of the last revaluation established by Executive Decree 96-336 of 10/13/1996.

### Part 1: General

#### Effects of inflation on the company

Reading about the French Securities and Exchange Commission in its report of 1975 Page 08 gives a few lines a juxtaposition of the effects of inflation experienced by balance sheet and results of a company; we share. "From a currency depreciation rate, maintenance, constant value of capital invested in the company can be assured because of the lack of depreciation, the accounting result is then inflated and the company risks losing gradually its substance, by showing profits partly fictional, on which it country tax and is possibly key to its shareholders. It will then look into debt and the repayment of its debts in devalued currency, compensation for this phenomenon, causing damage". The training of financial structures more fragile, where equity no longer plays its role.

#### Illustration of the effect of inflation on investment

With a simple example can illustrate the effect of inflation was tangible depreciable capital account.

Example: Either a business created with a capital of 1,000,000 DA at the beginning of 1990. This amount is used for the acquisition of a machine whose duration of life is estimated at five years (amortized linearly). If each year the company achieved a result of 400,000 DA (excluding depreciation) the balance sheet of its fifth year may be presented according to two assumptions:

1. The replacement value of the machine remains unchanged during the 05 years (Table 1) [1].

Note: the result on the liabilities side of the balance sheet is reduced by the sum of the depreciation recorded on the five years of operation.

2. The value of replacing the machine has doubled during the 05 years (Table 2).

The company is forced to pay 1,000,000 DA in addition to the purchase of a same machine. The balance sheet of its fifth year should be present as well

Active	Amount	Passive	Amount
Investments Machine (1M-1M)	0	Own Funds Social Capital Result (2M -1M)	1,000,000
Bank (400,000 × 5 years)	2,000,000		1,000,000
Total Active	2,000,000	Total Liabilities	2,000,000

Note: The result on the liabilities side of the balance sheet is reduced by the sum of the depreciation recorded on the five years of operation

Table 1: Balance Sheet 12/31/1994 (5<sup>th</sup> year).

Active	Amount	Passive	Amount
Investments Machine	2,000,000	Own Funds Social Capital Result (2M-1M)	1,000,000
			1,000,000
Total Active	2,000,000	Total Liabilities	2,000,000

Note: The company has exactly the same elements that at the beginning of his first year in more than a zero cash and a result of the fictitious fact of the inadequacy of the depreciation.

Table 2: Balance Sheet 12/31/1994 (5<sup>th</sup> year).

\*Corresponding author: Bouaziz Sheikh, External Auditor, Higher Study in commercial Sciences and Financial, Alegria, Tel: 01 41 62 14 40; E-mail: cheikh.bouaziz@yahoo.fr

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Topic	Before Based Reval Group.	Coeff. Based Reval Group.	V. O. reassessed Depr Based Reval Group.	Gap
Original Value	200,000	2.40	480,000	280,000
Shock Absorber. 1988	20,000	2.40	48,000	28,000
1989	20,000	2.05	41,000	21,000
1990	20,000	1.50	30,000	10,000
1991	20,000	1.00	20,000	0
Totals/Coeff. Medium	80,000	1.7375	139,000	59,000
New V. N. C			341,000	
Revaluation surplus				221,000

The average coefficient of revaluation=1.7375.

Table 3: Reminder of calculated of revaluation made 12/31/1993.

Year	Depreciation Already practices	New Depreciation Expense	Additional Depreciation
1992	20,000	56,833.33	36,833.33
1993	-	56,833.33	56,833.33
1994	-	56,833.33	56,833.33
1995	-	56,833.33	56,833.33
1996	-	56,833.33	56,833.33
1997	-	56,833.35	56,833.35
Totals	20,000	341,000.00	321,000.00

Note: the new net book value serves as the basis of the calculated the new depreciation beginning in the fiscal year 93, given that the exercise 92 is closed with a staffing calculated on the value of initial origin. This is quite normal, since the decree 93-250 of 24/10/93 is applicable only on the acquisitions contained in the balance sheet ended 12/31/91. It is therefore logical to see a supplementary staffing for the year 92.

Table 4: Calculated depreciation after revaluation 31-12-1991.

### Effects of inflation on the accounts held in historic cost

**Consequences at the level of the balance sheet:** The net situation is not representative of the patrimonial situation of the company. The liquidity situation is distorted to the extent or the liquidity obtained by the previous operations is insufficient, due to price increase.

**Consequences at the level of accounts of results:** The determination of the result does not include the offsets between the variation in the elements of the cost price and the elements of the sale price (Table 4).

The depreciation, calculated on the basis of the historical cost of capital assets, lose their economic sense for distribution of a cost. The rule of prudence, which led to record only the gains actually achieved (rule of achievement), ignore the more unrealized gains arising from inflation and are assimilated to a benefit in the event of realization of assets. This rule to a double impact on the results:

The result being overstated, the tax levy may be performed on the substance of the business itself. The dividend distributions can have a fictitious character.

### Challenge to certain accounting principles

The effects of inflation on the accounts allow you to call into question the two accounting principles at the basis of the use of the method of historical costs; namely:

**Principle of nominalism:** WHO considers that a dinar remains always a dinar, regardless of the depreciation of the monetary unit.

**Principle of caution:** Which rejects the recognition of profits not yet realized and retain only the historical value of an asset and to calculate accordingly the depreciation on this basis.

## Part II: The Revaluation of Fixed Assets

**Definition and principle:** The revaluation is an exception to the principle of nominalism or historic cost, which provides an assessment in original value of tangible capital assets depreciable in a situation of monetary instability.

The revaluation of fixed assets is therefore to correct the initial values (costs of acquisitions and depreciation) in their application of coefficients supposed to translate, in a period of inflation, the loss of value of the currency.

### Forms of revaluation

From the point of view of its application, the revaluation can be free or legal.

**The revaluation free:** In this case, the law gives to the company the possibility to proceed at any time to a revaluation, respecting certain conditions.

**The statutory revaluation:** It is instituted by decree, when the circumstances so require, to impose or authorize a correction values (acquisition costs and depreciation) and the conditions and modalities are laid down in a precise fashion.

### History of statutory revaluation in Algeria

Before the promulgation of the executive decree 90-103 of 27/03/1990 concerning the first revaluation legal in Algeria, other texts have already view the day, but which remained without effect because of their lack of application. Starting with the law 88-01 of 12/01/1988 laying guidance law on enterprises, in its article 39 which states: "The public undertaking economic highlights in its accounting records the consistency of property which it has under the act, the full ownership and their against-discounted value". This act is followed by the methodological note no.01 from the group called "autonomy of the public enterprise" and which deals with the accounting aspect of the revaluation.

And ending with the Act 88-30 19/07/1988 finance act complementary for 1988, particularly in its article 13 which stipulates "the businesses and agencies governed by the commercial law are allowed to reassess in the conditions laid down by regulation, the tangible capital assets depreciable appearing in the balance sheet ended 12/31/1987. This article returns its application to the executive decree 90-103 of 27/03/1990.

Just after the first, there were two other revaluations which have followed, including, in 1993 and in 1996 [2]; established in order to allow for national companies to rebalance a financial situation seriously deteriorated as a result of the exchange rate losses incurred on their external debt, the result of a continued erosion of the national currency.

### The different revaluations

**The previous revaluations:** (Table 5)

**The first revaluation (Executive Decree No. 90-103 of 04/04/ 1990):**

*Scope of application:*

- The undertakings concerned:** The revaluation affects the businesses and agencies governed by the commercial law (or after: Art. 01 of the law 90-103 of 04/04/ 1990). Article 02 of the same act obliges the State enterprises which take their accounts in the commercial form to

Topic	Before Based Reval Group.	Coeff. Based Reval Group.	V. O. reassessed Depr Based Reval Group.	Gap
Original Value	480,000	4.42	2,121,600	1,641,600
Shock Absorber. 1988	48,000	4.42	212,160	164,160
1989	41,000	3.86	158,260	117,260
1990	30,000	4.32	129,600	99,600
1991	20,000	2.94	58,800	38,800
1992	56,833.33	2.46	139,809.99	82,976.66
1993	56,833.33	2.21	125,601.66	68,768.33
1994	56,833.33	1.41	80,134.99	23,301.66
1995	56,833.33	1.00	56,833.33	0
Totals	366,333.32		961,199.97	594,866.65
New V. N. C			1,160,400.03	
Revaluation surplus				1,046,733.35

Table 5: Calculated revaluation 12/31/1996.

undertake the revaluation of their tangible capital assets depreciable. It is optional for the industrial and commercial enterprises of the private sector and the mixed-economy companies.

They are excluded: The industrial and commercial enterprises subject to the regime of the administrative evaluation;

Businesses and civil societies; the institutions and agencies of administrative character the liberal professions.

- *The capital assets involved:* Under the terms of article 04 of the law 90-103 of 04/04/1990, the reassessment applies to tangible capital assets depreciable as well as to depreciate-corresponding elements. It is depreciated or not, these assets are revalued to condition:

That they are included in the balance sheet clos 12/31/ 87;

That they are likely to be used again for at least three (03) years from the date of the revaluation.

*Modalities of application:* According to the law 90-103 of 04/04/1990, the revaluation will be to apply the coefficients fixed by the same law (see annex) on the original values (raw values and depreciation) as follows:

On the original values: the coefficient to be applied is equivalent to the year of acquisition of the asset.

Formula:

Original Value reassessed=Val. Origin × coefficient year of acquisition

On the depreciation: the coefficient to be applied is equivalent to that of the original value for the first annual fee, and the one that corresponds to each year of depreciation for the other installments.

Formula:

Revalued Depreciation=Annuity Origin × coeff. Corresponding Year

➤ *Calculated in the revaluation surplus*

The added value of revaluation can be obtained either:

By the difference between the new net book value and the former net accounting value,

By the difference between the revaluation surplus on the gross value and the gap on depreciation.

Formula 1:

Net Book Value=Val. Origin-Depreciation ..... (1).

Net accounting Value reassessed=Val. Origin Based Reval Group. - Shock Absorber. Based Reval Group ..... (2).

Revaluation surplus=(2) - (1).

Formula 2:

Gap Based Reval Group. S/val. Origin=Val. Origin Based Reval Group.-Val. Origin ..... (1).

Gap Based Reval Group. S/book.=Book. Revalued-Book. Origins ..... (2).

Revaluation surplus=(1)-(2).

➤ *Calculates subsequent accumulated depreciation:* The ongoing investment of depreciation is amortized over the duration of normal life remaining. For that they can be evaluated, in the case where they are fully depreciated, they must be useful for the business for at least three (03) years from the date of the revaluation and contained in the balance sheet ended 12/31/87.

According to the decree 90-103 of the 04/04/1990, the depreciation charges subsequent to the revaluation are calculated on the basis of the "net values reassessed accounting" of capital assets which can be used during at least three more years, as of 31/12/1987 date of revaluation.

Note: even if the effective date is 31/12/1987, most of the companies have begun recording in the accounts of the revaluation that 12/31/1990, due to the promulgation of the decree on the revaluation from this loses date.

➤ *Accounting treatment of revaluation differences:* Really we distinguished between three revaluation differences whose assignment accounting is as follows:

Assignment of the gap on original value reassessed: that is the difference between the original value and the original value reassessed. This gap is in increase in the investment account revalued.

Assignment of the gap on revalued depreciation: this is the difference between depreciation of origin and the revalued depreciation. This gap is in increase in the staffing previously found.

Assignment of the revaluation surplus itself: it is the capital gains arising from the revaluation of the original value and the corresponding depreciation. This gap is assigned on the liabilities side of the balance sheet by increase of own funds.

**The second reassessment (Executive Decree No. 93-250 of 24/10/ 1993):** This revaluation has been established to amend and supplement the first revaluation established by decree 90-103 of 04/04/1990. We can to this effect to make the finding below:

By report to the first revaluation, the executive decree 93-250 of 24/10/1993 made a distinction between the property equipment and the immovable property which constitute the tangible capital assets depreciable, likely to be reassessed on the condition that they appear in the balance sheet ended 12/31/1991. Will therefore be revalued:

The equipment: machinery and equipment, transport equipment, office equipment, packaging recoverable;

Buildings: land of quarries and deposits, buildings, infrastructure works, complex installations.

The revaluation coefficients vary depending on the nature of the

capital asset (equipment or building). For each nature, two sets of coefficients are planned, one applies on the original values (V.O), the other, on the original values already reevaluated (according to that the first revaluation has been applied or not).

This reassessment affects the depreciable investment contained in the balance sheet ended 12/31/1991 and likely to serve at least three (03) years, as of this date. For the immovable property revaluation has been extended, taking account of their lives, to property acquired since 1963.

**The third revaluation (Executive Decree No. 96-336 of 10/13/1996):**

**New provisions of decree 96-336 of 10/13/1996:** This revaluation is hereby established to amend and supplement the previous two revaluations, in this case, the one established by the executive decree 93-250 of 24/10/1993. We can to this effect to make the finding below [2]:

Are revalued, the tangible capital assets depreciable appearing in the balance sheet close to the title of the 1995. The nature of the investments to reassess remains unchanged in relation to the decree 93-250 relating to the second reassessment.

For the moment, the intangible items, including the funds of trade as well as the land always remains excluded from the scope of application of the revaluation. Depreciation after revaluation is calculated according to a life set in consideration of the nature of the property and its remaining life; namely:

The equipment fully amortized at the date of the last balance sheet clos 12/31/1995 or whose remaining life is less than or equal to three (03) years are amortized over three (03) years,

The equipment in course of depreciation is amortized over the duration of normal life remaining, when the latter is greater than three (03) years.

The immovable property fully depreciated on the date of the last balance sheet clos 12/31/1995 or with a normal life remaining is less than or equal to ten (10) years are amortized over ten (10) years,

The immovable property in course of depreciation is amortized on a normal life remaining, when the latter is greater than ten (10) years.

**Practical Examples of the revaluation (Decree 96-336 of 10/13/ 96):**

**Case 1:** Equipment partially amortized and revalued 12/31/93 (Table 3)

Original Value: 200,000 DA-Date of acquisition: 1988-life expectancy: 10 Years

Depreciation practice: linear.

➤ *Calculates depreciation after revaluation:*

New depreciation base: 341,000 (New V. N. C)

Remaining Life: 06 years (92, 93, 94, 95, 96, 97)

New depreciation charge:  $341,000/6=56.833.33$

Date of effect (revaluation date): 31-12-1991 (the new installments are calculated from that date) (Table 4).

➤ *Calculates depreciation after revaluation:*

New basis for depreciation: 1,160,400.03 (New V. N. C).

Remaining Life: 02 years (1996 and 1997) (Table 5).

Life probable extra: 03 years (because the remaining life is less than three years).

New depreciation charge:  $1,160,400.03/3=386,800.01$  (for 96, 97, 98).

Date of effect (revaluation date): 31-12-1995 (Table 6) (the new installments are calculated from that date)

**Case 2:** Equipment fully depreciated and revalued 12/31/1993 (Table 7).

Original Value: 150,000 DA-Date of acquisition: 1987-life: 05 years.

Depreciation practice: linear-Equipment non-revalued 12/31/1990.

➤ *Calculates depreciation after revaluation:*

New depreciation base: 103,500 (New V. N. C).

Remaining life: 0 year.

Life probable extra: 03 years (because the remaining life is less than three years).

New depreciation charge:  $103,500/3=34,500$  (for 92, 93, 94).

Date of effect (revaluation date): 31-12-1991 (the new installments are calculated from that date) (Tables 8 and 9).

➤ *Calculates depreciation after revaluation:* (Table 10)

New depreciation base: 569,050 (New V. N. C).

Remaining Life: 0 year.

Year	New Depreciation Expense
1996	386,800.01
1997	386,800.01
1998	386,800.01
Totals	1,160,400.03

**Table 6:** Date of effect (revaluation date): 31-12-1995 (the new installments are calculated from that date).

Topic	Before Based Reval Group.	Coeff. Based Reval Group.	V. O. reassessed Depr Based Reval Group.	Gap
Original Value	150,000	2.60	390,000	240,000
Shock Absorber. 1987	30,000	2.60	78,000	48,000
1988	30,000	2.40	72,000	42,000
1989	30,000	2.05	61,500	31,500
1990	30,000	1.50	45,000	15,000
1991	30,000	1.00	30,000	0
Totals/Coeff. Medium	150,000	1.91	286,500	136,500
New V. N. C			103,500	
Revaluation surplus				103,500

The average coefficient of Re=1.91.

The average coefficient of revaluation=1.7375.

**NOTE:** to find directly the sum of depreciation revalued, it is sufficient to multiply the sum of the allocations of origins by the average coefficient, provided that the later or constants.

**Table 7:** Reminder of calculated of revaluation made 12/31/1993.

Year	New Depreciation Expense
1992	34,500
1993	34,500
1994	34,500
Total	103,500

**Table 8:** Calculates depreciation after revaluation 31-12-1991.

Topic	Before Based Reval Group.	Coeff. Based Reval Group.	V. O. reassessed Depr Based Reval Group.	Gap
Original Value	390,000	5.17	2,016,300	1,626,300
Shock Absorber. 1987	78,000	5.17	403,260	325,260
1988	72,000	4.42	318,240	246,240
1989	61,500	3.86	237,390	175,890
1990	45,000	4.32	194,400	149,400
1991	30,000	2.94	88,200	58,200
1992	34,500	2.46	84,870	50,370
1993	34,500	2.21	76,245	41,745
1994	34,500	1.41	48,645	14,145
Totals	390,000		1,451,250	1,061,250
New V. N. C			569,050	
Revaluation surplus				569,050

Table 9: Calculated revaluation 12/31/1996.

Year	New Depreciation Expense
1996	189,683.33
1997	189,683.33
1998	189,683.33
Total	569,050.00

Table 10: Calculates depreciation after revaluation: 31-12-1995.

Topic	After Based Reval Group.	Before Based Reval Group.	Gap
Gross Value	480,000	200,000	280,000
Depreciation	139,000	80,000	59,000
V. N. C/Gap Based Reval Group.	341,000	120,000	221,000

Table 11: Reminder of this revaluation 12/31/93.

31/12/93		
24 Production Equipment	280,000.00	
294 Depreciation equip. production		59,000.00
15 Revaluation surplus		221,000.00
Finding the revaluation differences		
D°		
6824 Amortisation charge	93,666.66	
294 Depreciation equip. production		93,666.66
Supplementary Staffing of years 92, 93. (See depreciation table page 14).		
D°		
69668 Loads from previous years	36,833.33	
79668 Transfer of operating expense		36,833.33
Transfer of the additional staffing in 1992.		

Table 12: Reminder-writes of past revaluation 12/31/93.

Life probable extra: 03 years (because the remaining life is less than three years).

New depreciation charge:  $569,050/3=189,683.33$  (for 96, 97, 98).

Date of effect (revaluation date): 31-12-1995 (the new installments are calculated from that date).

**Accounting treatment of the revaluation:** The accounting for the revaluation includes the correction of the book values of investments (gross values and depreciation) and the discovery of the difference resulting from between these two values in a suspense account of own funds; namely the account "15-revaluation surplus". The data of case 1 that can be summed up was resumed (Tables 11-14).

## The Reintegration to the Tax Result of the Revaluation Surplus not Assigned

### The possible assignments of the revaluation surplus

The more values of reassessment are the counterparty liabilities of

corrections in increase of the values of the fixed assets appearing on the asset side of the balance sheet.

By definition, we can conclude that the revaluation surplus fact party of own funds elements. Moreover, the texts indicate that the more value generated can be either incorporated into the capital and given rise to the issue of new shares, is assigned to the resorption of deficits to the account results in instances of assignment. Only the distribution of the so-called higher-value is prohibited by law [3].

### Tax provisions relating to the reintegration of the gap not assigned

The tax advantage which was to include the more-value of revaluation in an account of own funds, tax-free, while allowing for the deduction of the full amount of depreciation charges, including those induced by the revaluation is now removed by the finance act for 1996, at least, when the revaluation surplus has not been assigned to the 1 January 1995. Below the new tax provisions:

**Article of the code of the direct taxes (C. I. D)–Article 186 paragraphs 2:** The capital gains from revaluation are included in the results of the year by fraction equal to the annual installments of additional depreciation resulting from the revaluation.

**Provisions of section 107 of the finance act for 1996:** "The more-values not affected, resulting from the operations of revaluation, contained in the balance sheet of the companies on 1 January 1995 are taxable according to the modalities provided for in paragraph 2 of article 186 of the C. I. D to reason of more-values corresponding to this date". In addition, the Directorate General of taxes has provided the following clarification:

The situation in the 1 January 1995 means the balance sheet of entry of 1995, at the end of the decisions of the General Assembly of shareholders called to meet during the first half of 1995, to decide on

Topic	After Based Reval Group. 96	After Based Reval Group. 93	Gap
Original Value	2,121,600.00	480,000.00	1,641,600.00
Depreciation	961,199.97	366,333.32	594,866.65
V. N. C/Gap Based Reval Group.	1160.400,03	113,666.68	1,046,733.35

Table 13: Reminder of this revaluation 12/31/96.

31/12/96		
24 Production Equipment	1,641,600.00	
294 Depreciation equip. production		535,290.00
15 Revaluation surplus		1,046,866.65
Finding the revaluation differences		
D°		
6824 Amortisation charge	386,800.01	
294 Depreciation equip. production		386,800.01
Supplementary Staffing year 96 $1,266,810/3=386,800.01$ for 96, 97, 98. (See table of depreciation page no.15).		

Table 14: Reminder writes of past revaluation 12/31/96.

Year	Depreciation Already practices	New Depreciation Expense	Additional Depreciation
1992	20,000.00	56,833.33	36,833.33
93 TO 96	-	$56,833.33 \times 4$	227,333.32
1997	-	56,833.35	56,833.35
Totals	20,000.00	318,000.00	321,000.00

Table 15 : Reminder of the data of the case 1.

Year	Annual installments		Depreciation	Assignments	
	Origins	Reassessed	Complementary	Acct. 150	Acct. 151
1992	20,000.00	56,833.35	36,833.33	36,833.33	
1993	20,000.00	56,833.33	36,833.33	36,833.33	
1994	20,000.00	56,833.33	36,833.33	36,833.33	
1995	20,000.00	56,833.33	36,833.33		36,833.33
1996	20,000.00	56,833.33	36,833.33		36,833.33
1997	20,000.00	56,833.33	36,833.35		36,833.35
	120,000.00	341,000.00	221,000.00	110,499.99	110,500.01

Table 16: Treatment of the revaluation surplus.

31/12/96				
15 Revaluation surplus		221,000.00		
150 Gap in tax free				110,499.99
151 Gap taxable				110,500.01
Finding the revaluation differences				
D°				
152 Gap relates to the result		36,833.33		
7985 Gap Based Reval Group. inscribed to prod. exceptional.				36,833.33
Regularization result 1995.				
D °				
6999 Exceptional Allocations		56,833.33		
294 Depreciation equip. production				56,833.33
Supplementary Staffing 1996.				
D°				
152 Gap relates to results		36,833.33		
7985 Gap Based Reval Group. inscribed to prod. exceptional.				36,833.33
Reintegration gap 1996.				

Table 17: For the exercise 96.

31/12/97				
6999 Exceptional Allocations		56,833.35		
294 Depreciation equip. production				56,833.35
Supplementary Staffing 1996.				
D°				
152 Gap relates to the result		36,833.35		
7985 Gap Based Reval Group. inscribed to prod. exceptional.				36,833.35
Reintegration gap 1997.				

Table 18: For the exercise 97.

the results of the year 1994;

In other words, the revaluation surplus included in the accounts as at 1 January 1995, to the extent it has been affected by the General Assembly of shareholders which ruled on the accounts for the financial year 1994, is not affected by the reintegration to the tax result [4].

### Accounting procedures for the reintegration of the gap not assigned

In application of the provisions of articles 14 and 107 of the Ordinance No. 95-27 of the 30/12/1995 finance act for 1996, the additional depreciation resulting from the revaluation to be included in the base of I.B. S, should be the subject of the accounting treatment next:

The account '15 - revaluation surplus' is subdivided as follows:

- 150 - Gap free of tax.
- 151 - Taxable Gap.
- 152 - Gap relates to the results.

The account "150-Gap in franchise tax" is credited with the amount of the revaluation surplus not concerned by the provisions of the

forementioned articles. The account "151-taxable Gap" is credited with the amount of the revaluation surplus which must be the subject of a reinstatement to the results. This amount corresponds to the additional allocations from the revaluation for 1995 and following. The account "152-gap relates to the results" is debited for the amount of the revaluation surplus actually reinstated each year to the results, by the credit of the account "7985-revaluation surplus included in exceptional products". For the sake of accounting harmonisation, the supplementary staffing induced by the revaluation should be observed in a charge account off-farm "6999-exceptional Allocations" [5-7]. Practical Example of accounting discrepancies not affected resumes the data of case 1 that can be summed up as follows (Tables 15-18).

### Special Cases Concerning the Revaluation

#### Revaluation of an asset whose value of origin is not known

Under the terms of article 05 of decree 90-103 of 27/03/90, when the original value of an asset is not known, the latter must be reconstituted according to experts or deducted by reference to comparable property. If the reconstitution of this value is impossible, the asset should be recorded by its current value.

In this condition, the property in question cannot be reassessed, since it is already updated.

#### Revaluation of an asset for which the deduction of depreciation is capped

Under the terms of article 10, subparagraph 03 of the C. I. D., the deductibility of depreciation for vehicles of tourism is limited to the acquisition value of unitary 800,000.00 DA. Beyond this limit, the difference is regularized annually in accountings by reinstatement at the table of the tax forms for a fraction equal to the annual installments of additional depreciation.

#### Assignment of a well reassessed

No legal text dealing revaluation was expected the case of disposal of capital assets revalued. However, two possibilities may arise:

The assignment of the property revalued intervenes during the period of three (03) years for the equipment or of (10) years for the building;

The assignment of the property revalued intervenes after the period of three (03) years for the equipment or of (10) years for the building;

**1<sup>st</sup> possibility:** in this case the revaluation becomes without effect, since the property in question must be used for the full duration for it to be reassessed. Therefore, the additional depreciation practices must be included in product and the gain from the sale must be calculated on the basis of the V. N. C not revalued.

**2<sup>nd</sup> possibility:** In this case the assignment will normally and on the basis of the V. N. C reassessed.

**Positive effects of the revaluation:** The revaluation helps reduce the effects of the monetary depreciation for businesses structurally beneficiaries. It allows you to create a cash-flow in harmony with the values of replacement, the fact of depreciation complementary. The reassessment allows the company to release a more-value which presents a possibility to be incorporated into the capital, in exchange for issuance of new shares.

**Negative Effects of the revaluation:** The revaluation, on the contrary, promotes inflation for companies structurally loss, the fact

what will accentuate their operating losses by the new depreciation charges. It can lead to inflated values, the fact of the fixing of a uniform coefficient for the whole of the equipment. This is particularly the case of the computing equipment, the prices of which have accused a decline observed. The revaluation takes into account that the factor monetary erosion and non-obsolescence linked to the technological evolution [8-10]. It is applied systematically on the entire depreciable asset, even if some have a current value less than the net accounting value reassessed. The revaluation does always affects not the intangible items, including the funds of trade as well as the land.

## Conclusion

The revaluation of fixed assets is not only of the benefits, it also has its disadvantages. In addition to the fact that it encourages inflation, for companies structurally in deficit, it necessarily increase their operating losses, particularly for those who do not have the opportunity to pass the new loads of depreciation on prices.

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