

On The Development of West African Accounting System

Boka Moussa

Economics and Management School, Wuhan University, Wuhan 430072, China

Tel: 86-2762-770-904 E-mail: bokamoussa@hotmail.com

Abstract

The authorities of the West African Economic and Monetary Union (UEMOA) fully understand that accounting plays the significant role in the process of economic development and regional integration in the member states. They decided to establish a common new accounting system, called West African Accounting System (SYSCOA). The accounting system has been developed on the initiative of the Central Bank of West African States "BCEAO". The SYSCOA integrates and completes the Uniform Act relative to the Accounting Law developed by the Treaty of OHADA (Organization for the business Harmonization on Commercial Law in Africa). By ensuring the continuity with the preceding accounting systems, the SYSCOA also integrates international accounting standards in order to attract foreign investments. While recognizing the important progress brought by the SYSCOA, some difficulties for its application are noted and we bring some recommendations.

Keywords: West African Economic and Monetary Union, SYSCOA, IFRS, Regional Integration

1. The Process of West African Integration

1.1 Monetary Framework, the CFA zone

The CFA Franc (in French: Franc CFA) is the common currency used in 12 former French ruled African countries as well as in Guinea-Bissau former Portuguese colony and Equatorial Guinea former Spanish colony. It was created on December 26, 1945; the day when France ratified the Bretton Woods agreement and made its first declaration of parity to the International Monetary Fund. The reason for the creation of these francs was the weakness of the French Franc immediately after the Second World War. The evolution of the Exchange Rate CFA vs. French Franc is summarised in Table 1.

Generally speaking, there are actually two different currencies called CFA franc: the West African CFA franc (ISO 4217 currency code XOF), and the Central Africa CFA franc (ISO 4217 currency codes XAF). They are distinguished in French by the meaning of the abbreviation CFA. These two CFA francs have the same exchange rate with the euro (1 euro = 655.957 XOF = 655.957 XAF), and they are both guaranteed by the European Central Bank, but the West African CFA franc cannot be used in Central African countries, and vice versa.

1.1.1 The West African CFA

The West African CFA franc (XOF) is just known in French as the *Franc CFA*, where CFA stands for "Financial Community of Africa". It is issued by the BCEAO "Central Bank of the West African States", located in Dakar, Senegal, for the 8 countries of the UEMOA "West African Economic and Monetary Union": Benin, Burkina, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.

With a Surface area of 3,509,610 sq. km, these 8 countries have a total population of 79.8 millions and a Nominal GDP of 42.668 billion of USD in 2004.

1.1.2 The Central Africa CFA

The Central Africa CFA franc (XAF) is just known in French as the *Franc CFA*, where CFA stands for "Financial Cooperation in Central Africa". It is issued by the BEAC "Bank of the Central African States", located in Cameroon, for the 6 countries of the CEMAC "Economic and Monetary Community of Central Africa": Cameroon, Central African Republic, Congo, Gabon, Equatorial Guinea and Chad.

With a surface area of 3.02 million sq. km, these 6 countries have a total population of 34.15 million inhabitants (2003) and a combined GDP of 28.3 billion USD in 2003.

1.2 The West African economic and monetary union (UEMOA)

The West African Economic and Monetary Union (UEMOA) were founded on 10 January 1994 in response to the devaluation of the common currency, the CFA Franc, on January 12, 1994. The Treaty establishing UEMOA theoretically came into effect on 1 August 1994 after ratification by the seven member countries and Guinea

Bissau enjoyed the union on May 2, 1997. The UEMOA currently includes Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.

1.2.1 The Objectives and Economic conditions of the UEMOA

The UEMOA is characterized by the recognition of a common monetary unit, the CFA Franc, which is issued by the Central Bank of West African States - BCEAO, Customs and Economic union. With the aim of achieving the economic integration of its eight member states, the UEMOA, through its founding treaty, has set itself the following specific targets: (a) To increase the economic and financial competitiveness of its member States; (b) the convergence of macroeconomic policies and indicators; (c) create a common market; (d) coordinate of sectoral policies; and (e) harmonization of fiscal policies.

The economies of the West African economic and monetary union (UEMOA) countries are quite diverse. They are low-income countries eligible for World Bank concessionary loans and IMF enhanced structural adjustment funding. Nevertheless, these economies share certain common characteristics: (a) they all are small, relatively open economies, highly dependent on the export of a limited number of primary commodities; (b) agricultural is the dominant activity employing a large share of the population; and (c) the industrial sector is relatively small and underdeveloped

Since the devaluation of the CFA franc, UEMOA countries have achieved good macroeconomic performance as the result of post devaluation economic reform supported by the International Financial Institutions. Growth rates have improved (Real GDP growth rate (%) 3.8 in 2004), inflation has been relatively low (Inflation 1.3% in 2003 and 0.2% in 2004), and earnings from exports have increased especially for countries with high export potentials. The Population annual growth rate is 2.6% and constant from 1999 to 2004.

1.2.2 The Institutions of UEMOA

The heads of state of the UEMOA have created several regional institutions, spread out between member states as a mean to strengthen, coordinate, monitor, regulate integration efforts, and take advantage of recent economic opportunities.

1.2.2.1 Directive Bodies

The Conference of Heads of State and Government: It defines the broad outlines of Union policy and adopts acts additional to the Union Treaty. The Conference of Heads of State and Government decides which new members are to be admitted and makes all decisions concerning issues raised with it by the Council of Ministers. It meets at least once a year.

Council of Ministers: The Council of Ministers directs the Union. The Council of Ministers defines the Union's monetary and credit policy to protect the value of the common currency and finance economic activity and development in member states. It meets at least twice a year

UEMOA Commission: This body makes recommendations to the Council of Ministers concerning actions to implement the wide-ranging goals, acts against anti-competitive practices by firms, associations or member states and implements the budget of the union. The commission headquarter is based in Ouagadougou, Burkina-Faso.

1.2.2.2 Regulatory Bodies

The UEMOA Court of Justice: It is competent to judge issues arising from the UEMOA treaty. The Court of Justice is based in Ouagadougou since January 1995.

Regional Court of Audit: Control the organs' accounts of the union and the reliability of the budgetary data necessary for the multilateral surveillance. Officially set up in March 1998. The Regional Audit Court is based in Lomé, Togo.

UEMOA Interparliamentary Committee: Regarded as an embryonic UEMOA Parliament, the interparliamentary committee is a consultative body. It is based in Bamako, Mali

The Regional Consular Chamber: It gives advice on the functioning of the institutions and on steps to take to achieve greater integration. The Regional Consular Chamber is based in Lomé.

1.2.2.3 Specialized Autonomous Institutions

The Central Bank of West African States (BCEAO) The Central Bank of West African States (BCEAO) was established in 1962. BCEAO is the central bank of eight West African francophone states which form the West African Economic and Monetary Union. It's a public international institution. It has the sole right of monetary sign issue throughout West African Member States member States. Besides the sole right of monetary signs issue

which it enjoys throughout the member states of the Union, the Central Bank is responsible for the integration of regional stock exchanges dealing with securities, stocks and bonds; also to collate the various regional laws governing accounting, securities, stocks and bonds, the taxing of savings, investments. The BCEAO headquarter is based in Dakar, Sénégal.

The West-African Development Bank (BOAD) contributes to the funding, through various forms, of development support infrastructures, to the improvement of conditions and means of production and to the setting up of new activities. BOAD is based in Lomé, Togo

The Regional Financial Exchange (BRVM) *The BRVM (Bourse Regionale de valeurs mobilières)* is the regional stock exchange, set up after considerable teething problems in December 1998. The BRVM mission is to organize the securities market; disseminate market information and promote the market. The BRVM is headquartered in Abidjan, Côte d'Ivoire and represented in every member state by a national branch office.

The Convergence Committee, based on the reporting of the national economic committees and harmonized data systems, was established to enable multilateral surveillance of domestic policies.

2. The development of West African Accounting

2.1 The influence of French Accounting System

France has been exporting her accounting systems to various countries, namely to her former colonies, and the French system itself is experiencing changes as a response to the international pressures.

2.1.1 The classical French accounting model

In France, the accounting regulations are composed of the commercial law and the *Plan Comptable General*, the general accounting plan. The accounting plan itself is neither a law nor a doctrine. However, it is edited so that the accounting profession conducts their duties properly. In this sense, the accounting plan has provided referential guidelines, which collects the outcomes of the accounting thoughts and ideas in the country.

The accounting plan was exported to several countries, thereby bringing into existence more than one accounting plan called the '*Plan Comptable*' in the world. Nevertheless, the accounting plans commonly include: the accounting principles, chart of accounts (*cadre comptable*), list of accounts, terminology of accounts and their interpretations, explanations for entry into the journal, evaluation principles and forms of financial statements.

2.1.2 French approach to the exporting accounting system

Geographically, the French accounting model has been distributed world-widely. The former French West and North African countries such as Morocco and Tunisia adopted similar systems. In addition, even European countries such as Belgium, Spain, Portugal, and Greece have the comparable systems in a part of their whole accounting system.

In the West African countries, the OCAM (*Organisation Commune des Afrique et Madagascar*) accounting plan and the UDEAC (*Union Douanière des Economie de l'Afrique Centrale*) accounting plan were created in 1970 and 1974 for the member countries. Both plans were designed as a standard for when the local authorities developed their own accounting plans. The French approach taken to these countries was usually on a regional basis, not a country-to-country basis. The OCAM accounting plan was modified to the OHADA accounting plan. In North African countries, the first Tunisian accounting plan was adopted in 1968, and Morocco published its latest revised accounting plan in 1986. In Lebanon, an accounting plan similar to the French accounting plan of 1982 was adopted in 1981 as well.

The regulation framework and its present situation in the emerging countries differ from country to country or region to region. These differences originate from, firstly, the economic and political differences in the countries, and secondly, the lack of ministerial ordinances which enables the accounting plan officials in the recipient countries. Apart from these circumstances, common factors seen in these countries is that the French accounting plan of 1947 or 1957 was already adopted and used for tax purposes before their proper accounting systems were established.

2.2 OCAM Accounting Plan

It was 1970 when the first version of the General Accounting Plan was drawn up for the West and Central African countries. It was called the OCAM Accounting Plan named after the regional economic community, the Organisation Commune Africaine et Mauricienne. This was obviously the overseas version of the French accounting system set by the French accounting standards committee members for West African counterparts. When looking at the background and the process of the accounting standards creation in the region, especially

the kind of ideas adopted and how they were expressed in the regulations, the OCAM Accounting Plan provides an interesting research subject.

For one reason, only the simplified system, not the whole system used in France, was transported to the region; the minimum essentials of the French ideas, that is the harmonization between the national accounts and the enterprise accounts, was considered to be useful. Another reason is that the French accounting standards committee members had to adjust their domestic company laws to the fourth and seventh European Directives, and they had to study how to revise their own Accounting Plan of 1957. As a result, the idea of joining company data to national accounts was brought to the francophone countries, and the enterprise accounting system progressed further in France afterwards.

In line with the globalization of accounting standards through the International Accounting Standards (IASs), and in order for IASs to be applied to the emerging economies, an historical awareness is also necessary.

2.2.1 The objective of the OCAM plan and its difference with French accounting

The national accounting plans of OCAM member countries are based on the first version of the OCAM plan. It states in its introduction that the plan has three objectives: meaning and definition of accounts to satisfy users, accounting standardization for general analysis, and adaptation of accounting methods for data processing.

The first objective refers to the virtual necessity of accounting controls to the operation of enterprises and to the importance of registration of books. For this purpose, a major reform was undertaken to explain the function of accounts, which was not sufficiently supplied in the French accounting plan of 1957.

In this connection, it is worthwhile dealing with the chart of accounts that constitutes the principal part of the plan, as well as financial formats. The chart of accounts is composed of nine classes: long term and middle term accounts (Class 1/01), fixed assets accounts (Class 2/02), inventory assets accounts (Class 3/03), third-person accounts (Class 4/04), financial assets accounts (Class 5/05), expenses accounts (Class 6/06), operating revenue and income accounts (Class 7/07), income accounts (Class 8), cost accounts (Class 9). Class 01 to 05 form balance sheet accounts and Class 1 to 5 form financial position accounts. Class 6/06, 7/07 and Class 8 form income statement accounts. In each Class, principal accounts are codified in the decimal system. Each account is provided with a card in which its sub-accounts, its definition and its function are explained: whether it can be debited or credited, and which accounts can be used as counter-accounts. Definitions help bookkeepers to understand accounting terminology and the assumptions under which it is used. Each account has a rigid code, which makes it readily useable for information processing machinery.

In the chart of accounts, each Class shows a group of capital, liabilities, assets, income and revenues, expenses and costs. These components are specific in their accounting methods and procedures, and valuation rules. Valuation rules are still based on an acquisition basis, although a number of West African countries suffer from inflation.

2.2.2 Funds-flow statement

In the French Accounting Plan of 1957, a funds-flow statement was not included. The funds-flow statement is derived from Classes 1 to 5 of the chart of accounts. In the OCAM plan, '0' is used in order to distinguish interim movements' accounts (*comptes de mouvements patrimoniaux*) and financial position accounts (*comptes de situation patrimoniale*). The former accounts register transactions during the accounting period, whereas the latter shows the balance both at the beginning and at the end of the period. Without dividing these two groups of accounts in the chart of accounts, it is impossible to prepare the funds-flow statement directly from the chart of accounts.

The funds-flow statement is based on the 'all financial resources concept' or the economic resources concept. This concept is based on the important accounting events accrued during the current period, which have an influence upon the movements of the amount of both positive and negative financial resources. More precisely, the financial resources include assets, liabilities and capital items and profit, depreciation and allowances. The transactions stated in the funds-flow statement do not necessarily explain the sum of working capital or cash flows, but the statement shows the transitions in accounting items. The funds-flow statement reveals all the effects and movements, which have occurred, whereas the balance sheet presents only the cumulative effects.

A characteristic of the funds-flow statement in the OCAM plan is that it is closely geared to macro accounting. The funds-flow statement is composed of management flows, long-term flows and short-term flows in credit, and physical flows (long-term flows and short-term flows) and financial flows (long-term flows and short-term flows) in debit. The long-term flows correspond to the capital account in macro accounting, where the physical flows are described. Similarly, the short-term flows correspond to the financial accounts where the financial

flows are described.

2.2.3 Value-added statement

Income/wealth production and its allocation could be presented in the value-added statement, which was also not included in the French accounting plan of 1957. The value-added statement has seven sectional calculations. In the first section of the statement, the value of the sales is represented. Although this value shows the brought-in items, even a sales company can recognize its contribution to the economy where it operates by using this item. A manufacturing company, which has high value added elements, could use the second section in order to aggregate the production items and the intermediate goods items. The following section, the third one, shows the allocation items. This involves payment to the employees, taxes paid to the government, interest to financial institutions, and dividend payments to shareholders. It is only the value-added statement that could reveal the amount of production and payment to the stakeholders. From the fourth to the last section, the ordinary profit and loss calculations are considered. They are the transfer transactions of the fixed assets, profit and loss including tax, corporate tax and, the net current term profit and loss. Therefore, it is likely that the value-added statement of the OCAM plan is the combination of the value-added items and the current operating performance items.

It should be pointed out here that there is also a consideration given to macro accounting: the first three sections correspond to the production account, in which the wealth generation and the services spent in the enterprise sector are recorded. Although the OCAM plan itself was created to fulfill the requirements for enterprise accounting of the member countries, the clear articulation between micro accounting and macro accounting is one of the features to be emphasized.

3. West African New Accounting System (SYSCOA)

The implementation of the West African Economic and Monetary Union's (UEMOA) new Accounting Standards, the SYSCOA in 1998 was intended to harmonize accounting practices in the UEMOA zone. SYSCOA is assumed to improve information relevancy and to standardize accounting practices. The central Bank of West African States (BCEAO) which is mandated by the heads of states, began a project to develop an accounting system which would be appropriate to African economic realities and aimed at harmonizing the accounting and accounting practices in UEMOA with international standards. On January 1, 1998, SYSCOA became the official common accounting system for a number of businesses within the eight UEMOA member states. An important and decisive landmark has been reached, because the new regional accounting system is henceforth going to play its full role in accelerating the economic development and integration process of member states. SYSCOA is a reference framework, covering both the bookkeeping and the legal aspects of accounting. It obliges all businesses (except those which use a public finance system, such as banks, financial institutions and insurance companies) to follow the same accounting method.

SYSCOA incorporates a body of accounting rules adapted to the African economic realities and the present level of managing businesses in the sub-region. SYSCOA has been introduced so as to finalize the "packaging" of what must become an attractive business focusing point and a place for encouraging foreign investments.

3.1 *The reasons for a new Accounting System (SYSCOA)*

3.1.1 Weakness of previous accounting systems

The decision of the UEMOA authorities to establish SYSCOA was motivated by the following reasons:

a) Several accounting systems were coexisting in the geographic zone concerned. Certain countries were utilizing the French Accounting System of 1957. A group of countries adopted the French Accounting System of 1982. Certain other countries were referring to the Accounting System put in place within "OCAM" and put in application in 1970. A few countries within the same geographic space did not have a national accounting system; in those countries, each enterprise could use an accounting referential of its choice.

That heterogeneity prevents the comparability of enterprises and renders more difficult the strategic decision-making processes. The enterprises partners faced up with a multiplicity of information diffused through balance-sheets not always adapted to their specific needs.

b) The co-existence of different accounting referential resulted in the plurality of balance-sheets and financial statements.

A same enterprise could be forced to supply balance sheets and financial statements in different referential according to the needs of the enterprise partner with the high risk of loss of information.

c) Inadequacy of the accounting standards applied. The accounting standards applicable emanated from a

referential which was not based on any doctrine and methodology. Because of their ancientness, they could not take into consideration the international accounting standards.

d) The standards which were applied did not respond to the productive sector needs.

In fact, one of the characteristics of the economy of the developing countries is the important role played by the informal sector.

The accounting systems were not however taking into account the specificity of the economy. A large part of the economic activity of those countries was not reflected by the balance sheet.

e) The organization for the Harmonization of Business Law in Africa "OHADA", the uniform laws on general commercial law, company law, and economic interest groupings and on the organization of guarantees, in effect since January 1998 in 16 signatory states include an "Accounting Law" component to take into consideration for the general accounting referential.

To solve these accounting problems, the UEMOA member states decided to harmonize their accounting systems. A significant stage was then reached with this harmonization process which is materialized by the adoption of the new accounting system, SYSCOA. It has rendered null and void all the other accounting systems previously utilized without marking a discontinuity with the ancient accounting systems and integrated certain aspects of international or Anglo-Saxon standards.

3.1.2 Elaboration of the SYSCOA

The authorities of the BCEAO have played an important role in the process of accounting harmonization within the UEMOA. On September 1989, the administration council of the BCEAO and the UMOA cabinet created a new instrument of monetary management by establishing a centralized balance sheet of the union. Unlike the centralized balance sheet for central bank characterized by its financial vocation, the objective of this one was to collect and manage companies' accounting, financial and legal information. BCEAO was mandated by the heads of States to create a common accounting system, accelerate the regional integration of stock exchange and harmonize the legislation for economic products. In order to achieve these objectives, BCEAO consulted and unified two work group integrated by the members of private and public sector and universities. Due to the heterogeneity of the Accounting Systems in effect in the countries and to assure the comparability of the accounting and financial data, the works of the first group was directed to elaborate a common general accounting laws for companies. With the collaboration of the users of accounting and financial information, accounting law of SYSCOA was elaborated. The second group was in charge to work on the technical, functional and organizational aspects, which need a system for the collective data processing. In this line it was proceed to:

- a) Define the modalities of collection of the financial statements and the information while taking the legal form of the company into account,
- b) Define, design and achieve the results and evaluate the need of the users,
- c) Constitute a repertory of companies,
- d) Define the technical, functional and organizational architecture of the participant organisms.

The process of elaboration of the SYSCOA was long and took 31 months, with the assistance of 133 professional experts. Finally it was approved by the regulatory committee on December 4, 1996. The individual accounts for companies took effect on January 1, 1998 and the consolidated accounts on January 1, 1999. In the same way the data added by the centralized balance sheet are available from January 1, 2000.

After the establishment of the SYSCOA, all the previously accounting systems in effect in UEMOA are null and void. SYSCOA becomes a necessary element for economic development and regional integration. In order to facilitate his implantation, the BCEAO has organized sessions of formation and training professionals from April 1997. In addition, it was elaborated users documents: "Application guides" "Table of entries", "Terminology of Accounts" and "Financial Statements". Finally, it fixed an institutional framework in two levels:

- a) At regional level, the West African Accounting Council (CCOA) and the Permanent Council of the accounting Profession (CPPC) were created;
- b) At national level, the National order of Accounting Experts and Authorized Accountants (ONECCA), the National Council of Accounting (CNC) and Management Centers (CGA) were created.

3.2 Objectives and specificities of the SYSCOA

The main aims in view with this accounting system are:

Harmonize the accounting system by establishing a uniform accounting practices within the UEMOA member states, all former Accounting systems in effect in the UEMOA are replaced for the purpose of having homogenous data.

Modernize the accounting rules by adapting the companies' accounting model with international standards, while respecting the specificities of African economies.

Provide for the companies a useful and modern model of management

Create a centralized balance sheets of pertinent and trustworthy accounting and financial information.

Reinforce economic and financial analysis.

Based on the observations made about the weakness of the previous accounting systems in effect in Western Africa, the "SYSCOA" was designed in order to palliate certain deficiencies and allow the integration of the new international requirements. Thus, the SYSCOA is a synthesis of a necessary continuity in respect of the previous accounting systems and of the integration of certain aspects of the international or Anglo-Saxon accounting systems. In addition; the SYSCOA presents a certain number of innovations related to the economic and financial analysis. The authors of the SYSCOA have taken a certain number of formal options that give an authentic specificity to the referential.

3.3 Characteristics and basic accounting principles of the SYSCOA

The continuity has been safeguarded in respect of the preceding General Accounting System of 1957 and the OCAM Accounting System. The SYSCOA does not put into question the Continental School. It is not only designed for the investors but it is relevant for the social and economic partners of the enterprise (i.e. the banker, the lender, the supplier, the client, the staff and the Government). This aspect is particularly important for the Governments of the developing countries where the statistical and fiscal data are often difficult to diffuse. Henceforth this type of information will be readily accessible and diffused by means of the balance sheet. That option of relevance for all the enterprise partners facilitates the diffusion of the information. As in the preceding systems, the general model of analysis has been maintained. It can be marked that the SYSCOA gathers the following fields:

Dependence of the continental school

The influence of the Anglo-Saxon and international school

Reinforcement of the economic and financial analysis

Take into account the African specificities.

The principal innovations introduced in the SYSCOA concerning the previous systems are:

a) SYSCOA is a reference framework, covering both the bookkeeping and the legal aspects of accounting. It does away with a number of existing bookkeeping practices and systems, it obliges all businesses (except banks, financial institutions, insurance companies and those organization using public accounting) to follow the same accounting method. Every business must file their financial statements, so that public, private and institutional investors can have access to all the information concerning the ups and downs of securities, stocks and bonds dealt with at the regional stock exchange. No matter the size of the business concerned, accounts must be well-kept. Old accounting systems omitted all reference to small businesses developing within the informal sector of the economy. These must now keep accounts. Three (3) types of financial statements are provided by SYSCOA and designed in function of the size of the enterprise:

Standard system: for all business having an annual turnover exceeding 150 million CFA (≈300 000 \$).

Simplified system: for business having an annual turnover between 50 and 150 million FCFA.

Minimal system of Cash flow: for small business having an annual turnover less than 50 million FCFA.

b) SYSCOA implementation and follow-up will be taken in hand by the West African Accounting Council and the Permanent Council of Accountancy. In each country, SYSCOA will be supervised by each National Accounting Council, National Association of Specialist Accountants and by approved Centers of Management.

c) SYSCOA integrates the financial year with the civil year, thus doing away with the option which was offered to certain businesses to close their accounts on 30 July each year. From now on, all businesses must close their accounts on 31 December each year with the option of a prolongation until 30 July the following year, so that

their accounts may be approved at the companies' Annual General Meeting.

d) SYSCOA Provides the training of many accountants and financial professionals who allow a correct implementation of the new system, as well as the harmonization of the programs of teaching of book-keeping.

The Basic accounting principles in the SYSCOA are:(a)prudence ,(b)a going concern ,(c) nominalism ,(d)transparency or regularity ,(d)permanence of accounting methods,(e)the opening balance sheet for a fiscal year must match the closing balance sheet for the previous year,(f)separation of exercise and (g)relative Importance.

3.4 Structure and Financial statements of the SYSCOA

The SYSCOA is a chart of accounts with 113 articles integrated in three titles:

Title I: Individual accounts of the enterprises (Articles 1 to 102).

Chapter1: General Provisions

Chapter2: Accounting Practice

Chapter3: Annual financial statements

Chapter4: Rules of valuation and determination of the results

Chapter5: Accounting Supervision

Title II: Consolidated financial statements (Articles103 to 110).

Chapter1: Group accounts

Chapter2: Combined Accounts

Title III: Final provisions (articles111 and 113).

Chapter1: Sanctions (legal liability)

Chapter2: Disposition of application and taking effect (supplementary provision)

The "SYSCOA" presents formal specificities. On the one hand, the financial statements are enriched and, on the other hand, certain flexibility has been introduced in the accounting system through the creation of three types of financial statements designed in function of the size of the enterprise. The general system of classification for the accounts has been maintained. The decimal system of codification has still been kept and improved. The number and content of the financial statements have been enriched. The system includes 4 different financial statements (the balance sheet, the income statement, the Statement of Cash flow and the Notes to Financial Statements or Appended Statement). That change in the number of the annual financial statements responds to the requirements of the international standards and strengthen the option of the common relevance of the system for all the enterprise partners.

In order to be in consonance with the African economic realities, three (3) types of financial statements are provided for by the "SYSCOA" and designed according to the size of the enterprise:

The Standard System: is the most elaborated. It corresponds to the above description of the "SYSCOA". It is used by the large and medium-size enterprises which have an annual turnover exceeding 150 million CFA ≈300 000 \$. The financial statements provided by the standard system are: The balance sheet, the income statement, the cash flow statement (TAFIRE) and the notes of explanation (Appended Statement),

The Simplified System: corresponds to a simplified version of the standard system. The enterprises concerned by the "Simplified System" are defined in function of the turnover (between 50 to 150 million CFA ≈100-300 000\$) per year and of the number of employees as at the preceding financial year. The number of the annual financial statements is reduced to three: The balance sheet, the income statement and the notes of explanation (Appended Statement), the cash flow statement (TAFIRE) has been suppressed,

The Minimal System of Cash flow: is designed for the small enterprises which have an annual turnover less than 50 million CFA (≈less than 100 000 \$). It is established on the basis of the cash flows. It is in several respects derogatory to the normal accounting standards and presents the advantage of covering the enterprises of the informal sector and integrating them in the formal sector of the economy. The financial statement required is the income statement used to measure business revenues vs. expenses.

The "SYSCOA" emphasizes the reliability of the information through a recording of the flows and the extension of the mandatory accounting records to a six-column trial balance. Moreover, the strict and precise regulations relating to the treatment of the accounting information assure chronological and irreversible recordings. The

"SYSCOA" provides for the verification and certification of the balance sheets by legal financial auditors.

3.5 *The objectives of financial and accounting information in SYSCOA*

The objectives to be reached must be formulated in very simple terms and not complexes in their contents. It is on this level that must be apprehended the technical elements holding with dimension, structure, processes and the organization of the various types of units, in fact the Company or the Nation. Generally the principal objective of an accounting system lies on the production of financial and accounting information. Indeed the SYSCOA appeared to the experts having taken part in his development as the one which could give contents the reality of the most faithful image, the least partial, least ambiguous. With the difference of the Anglo-Saxon standards (especially American) which privileges information to stock exchange, the SYSCOA intends to meet the needs for information of all the categories of commercial economy whose center is the free business. This fact we carried out in Table2 the approach of the objectives by defining first the users, the objectives of the financial statements, the general nature of information and finally the foreseeable decisions.

3.6 *The differences between the SYSCOA and IFRS*

The SYSCOA is a complete accounting system. It is very different from IFRS, as well in its conception as in its overall architecture. Initially, as its name indicates and unlike the IFRS, the SYSCOA sticks not only to the nature and the characteristics of the information presented in the financial statements but also to the organization of accounting, the procedures of bookkeeping and the form which these documents must take. In the second place, whereas the IFRS were conceived mainly for the large companies (certain standards are even applicable only by the Securities companies), the SYSCOA is addressed to any type of companies, with a variable standard according to the size of the company. Nevertheless, the SYSCOA which is a text of law (Uniform Act of the OHADA), is a relatively short document which leaves, on certain points which became now important, a larger place with interpretation than the international standards (IFRS). These are designed in a modular way, around a conceptual framework and of a basic text (IAS 1 "Presentation of the financial statements"), in the form of a series of standards. Those are regularly updated and amended, and are supplemented by the interpretations emitted by a Standing Committee of the IASB (International Financial Reporting Interpretation Committee).

The differences between the SYSCOA and IFRS relate mainly to the following points:

The cash flow statement (TAFIRE), which is, with the balance sheet and the income statement, one of the obligatory financial statements of the SYSCOA. The TAFIRE present some important differences with the cash flow statement required by standard IAS 7. Most significant is that the TAFIRE is formed of a series of tables, designed as tools to help the determination of various natures of credit and debit, which makes its presentation heavier and complex. So the decomposition of principal natures of flow (related to the operational activities, of investment or financing) does not appear as clearly as to the reader of the financial statements following the format recommended by the IAS 7;

The table of variation of the stockholders' equity, which is not obligatory in the SYSCOA, whereas constitutes one of the four financial statements according to standard IAS 1 "Presentation of financial statements";

The level of information required in the Notes appended to the statements is definitely less in the SYSCOA than in IFRS. These additional information, intended to allow the user of financial statements to have an adequate comprehension and thus good use them, relates in particular to the rules and accounting methods, the description of the assumptions retained for the significant accounting estimation and the detail of the various parts of the financial statements with the correlative explanations (on their nature, reasons of the important variations, etc.);

Distinction between elements related to the "ordinary activities" and elements "not ordinary activities" in the presentation of the income statement as envisaged by the SYSCOA, whereas precisely standard IAS 8 ("Accounting Policies, Changes in Accounting Estimates and Errors"), in its revised version in 2004, prohibited such a distinction.

In terms of accounting (or recognition) and Valuation of assets and liabilities, income and expenses, the differences vs. the IFRS relate particularly on:

The preeminence of the model known as of the historical cost in the SYSCOA, which appears suitable in the current circumstances. The possibility of entering an asset or a liability with its "right value" - i.e. its economic value measured starting from a contract price or estimate of the future advantages being attached to it, for example in the form of cash flow - is limited to the only tangible fixed assets (lands, buildings, etc), and only within the framework of a revaluation approved by the appropriate authority. The IFRS, on the contrary, allow, even in several cases require, the use of the right value for the decree the balance sheet. It is thus the case for the real goods, the marketable securities, the receivables and liabilities made out in currencies (latent profits of

exchange are not considered products at each closing period) and the biological assets. In the same way, the actualization of the receivables and the liabilities according to their due date is required by the IFRS but not by the SYSCOA;

Principles of activation of some expenses. The SYSCOA permitted to carry in the assets of the balance sheet certain types of expenses which IFRS standards consider costs of period. It's more particularly the case of the expenses of research or the formation expenses which, according to the IAS 38 "Intangible assets", are not in assets. Moreover, the criteria of putting in assets the expenses of development are very strict in standard IAS 38. Finally, the SYSCOA allows the record in the assets some types of expenditure (under the heading "differed expense") whereas the IAS 38 recommends recording them as expenses of the period;

The provisions for risks and charges, whose record does not require the existence of a legal or implicit obligation, contrary to IAS 37 standard "Provisions, Contingent Liabilities and Contingent Assets". In practice, that means that the companies applying the SYSCOA have more latitude to note in their accounts of the provisions concerning of the operations whose realization depends on future events, which gives them more flexibility for piloting of their results;

The Accounting treatment of the Construction Contracts is done according to the method of completion. This method conduct to consider the profit on the Construction Contracts (often called long-term contract) only when work is delivered by the customer. According to standard IAS 11 "Construction Contracts", the profit on this type of operations must obligatorily be recognized as work on contract activity progresses, so that the financial statements reflect more accurately the results of the activity during the period they cover, which is one of their principal objectives;

Some financial commitments can be regarded as "out balance sheet" in the SYSCOA, whereas they give place to the entering of an asset or a liability according to IFRS. It is more particularly the case for commitments related to the employees' pension; the provision required by standard IAS 19 ("Employee Benefits"), but optional according to the SYSCOA. Concerning the operations of lease-financing, the SYSCOA envisages the entering in the balance sheet only the purchase contracts whereas standard IAS 17 "Leases" aims any operation of lease-financing, whatever the legal form that it assume. In the same way, the companies which apply the SYSCOA are not held to reprocess the possible transfers of credits with recourse and the similar transactions, That can result in reduce the evaluation of the financial debt as presented to the reader of the accounts;

The concept of deferred tax is envisaged by the SYSCOA only for the consolidated accounts and thus this fact is less applied. IAS 12 "Income Tax" requires considering in the individual accounts of assets or liabilities of deferred tax related to shifts between the period of entering of income and expenses and the period on which they are imposed or deduced. The incidence of this difference can be more significant as the SYSCOA allows, in the individual accounts, considering the provisions known as regulated, with fiscal characteristics and without economic foundation;

As regards the consolidation, the question of Business Combinations is superficially noted in the SYSCOA in two short articles, whereas it is the subject of a very detailed international standard (IFRS 3" Business Combinations", applicable as from 2005 instead of IAS 22).

Even if the subjects evoked above can relate only a limited number of companies, they constitute a source of significant differences and imply that the financial statements prepared in agreement with the provisions of the SYSCOA provide to the users of the financial statements information a less quality and less appreciably utility compared to the IFRS, and this particularly when the company does not prepare consolidated accounts.

4. Conclusion and recommendations

4.1 Conclusion

The "SYSCOA" which has become effective since January 1st, 1998 constitutes a significant step towards the integration of the western African countries in the economic system. West African countries have now converged towards international accounting rules and regulations and use a single accounting system.

The "SYSCOA" permit to the African countries to harmonize their management information systems, sine qua non condition to achieve a realistic economical integration based on a same visibility of the economies of the member states and on convergent economical policies. The SYSCOA integrated and completed the Uniform Act relative to the Accounting Law developed by the Treaty of OHADA.

While recognizing the important progress brought by the SYSCOA, some difficulties for its application are noted and the necessity to update by preserving some of its specificities. Among the principal difficulties mentioned, are announced in particular the following points:

- The fact that the minimal system of cash flow envisaged by the SYSCOA for the small size companies is less applied;
- The complexity of the cash flow statement (TAFIRE), which is one of the three obligatory financial statements of the SYSCOA;
- Treatment of engagements out balance sheet, in particular as regards of employees' pension and of operations of lease financing;
- The fact that the SYSCOA is not sufficiently effective as tools of the company management;
- In general, the weakness of the doctrine on the accounting practice, particularly on the points evoked above is explained by the fact that neither the CCOA (West African Accounting Council) nor the CNC (National Council of Accounting) were in activity until recently.

4.2 Recommendations

The process of accounting standardization as envisaged by the texts of the UEMOA is articulated around a regional organization, which held its first meeting in the end of 2004, and national bodies in each Member State. These institutions have an advisory role, only the Commission of the UEMOA can modify the SYSCOA. No modification was made to the SYSCOA since its installation. The SYSCOA, which is strongly inspired French chart of accounts, integrated certain notions of the international accounting standards. Nevertheless, the SYSCOA presents some differences with IFRS.

Here are some recommendations:

Develop the SYSCOA accounting standards by taking the international context into account, which will conduct in move them closer to IFRS;

Adopt the specifics accounting rules to micro finance institutions;

Define the way the West African Accounting Council (CCOA) and the National Council of Accounting (CNC) operate, and make sure that they have enough means to accomplish their missions. Make sure of the effectiveness of the mechanism of attribution of the execution force to the accounting standards;

Considering the difficulties of application observed since the installation of the SYSCOA, and differentiated analysis from the needs for the users of accounting and financial information:

–To re-examine the tables envisaged by the SYSCOA in the Standard System (part4, Title , Chapter3 and 4);

–On this basis, to arrange the thresholds delimiting the application of the three systems of the SYSCOA (Standard, Simplified and Minimal) to adapt accounting and financial information to the real needs for the users;

To set up a system of control of the professional exercise, intended to ensure the quality of the accounting practice and audit and the compliance with the deontological rules within the profession;

To make the system of remuneration of the professors more attractive for the members of the profession;

To carry out awareness campaign of the companies to the manager of company and the application of the SYSCOA;

To implement a plan of formation and training for the whole members of the profession.

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Table 1. The evolution of the Exchange Rate CFA vs. French Franc

Creation of the CFA Franc	December 26, 1945	1 CFA franc = 1.70 FF
Devaluation of the FF	October 17, 1948	1 CFA franc = 2.00 FF
Institution of the new FF	1958	1 CFA franc = 0.02 FF
Devaluation of the CFA Franc	January 12, 1994	1 CFA franc = 0.01 FF
Euro replaced FF	January 1, 1999	1 euro = 655.957 CFA franc

FF=French Franc

Table 2. The objectives of financial and accounting information in SYSCOA

Users	Financial objectives	Nature of information	Decisions
companies or managers	To provide significant and operational syntheses (management) on the situation (balance sheet) of the company, its economic structure (balance sheet and Income statement), its performances (Income statement) and its financial evolution (statement of cash flow-TAFIRE)	economic perspective and management financial analysis (modular according to the size of the company)	short-term management of long range strategies on the principal partners through their financial statements
suppliers and customers	To provide information on the creditworthiness and the perennity of the company	economic and financial perspective	creation and relations with the company, development or cease of these relations
Associates and investors	To provide information on the situation, the economic structure and the performances of the company	economic, financial and management perspective	to invest or not
lenders and banks	To provide information on the immediate solvency and on the perennity of the companion on the periode equal to the duration of the loans (recurring sizes)	economic and financial perspective and even of strategic management	to contract or not with the company in short-term, long-term and medium term
BCEAO	To provide indicators (ratios in particular) allowing to appreciate the quality of the signatures for the refinancing with the profit of the primary banks	financial perspective by rebounded economic and management	refinancing or not
Personnel	To provide information allowing a good appreciation the risks of not-perennity of the company	economic and social perspective	to contract or not with the company, appreciation of the employer's condition
State	To provide information for the tax levy, the general statistics, the national accounting for the definition of an economic policy	tax, statistical and macroeconomic perspective	economic policy and budgetary
Other partners of the company outside the OHADA member states	To provide information integrating all the accounting standards internationally selected to allow the legibility and the transparency of the financial statements	perspective of international practices	to invest or not in the zone according to the reliability of financial information

Source: translated from Guide ERNST&YOUNG, SYSCOA, P8