A historical analysis of the accounting development in Madagascar between 1900 to 2005

The journey from accounting plan to IFRS

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Abstract

Purpose – This paper aims to document the history of accounting development in Madagascar over the last century. It reports the development and important events that took place between 1900 until the twenty-first century and discusses its impact on the development of accounting systems and practices in Madagascar.

Design/methodology/approach – In order to do this it uses the Code of Commerce, 1807 to narrate the development in accounting regulation and the different accounting plans issued in the country over the last 100 years.

Findings – Given that the Accounting Plan 2005 claims to have harmonized with the international financial reporting standards (IFRS), this paper analyzes the level of harmonization with the IFRS by comparing the Madagascar Accounting Plan 1987 and 2005 with the IFRSs to identify any missing issues which can be regarded as symptoms of disharmony. This paper concludes that accounting plan in Madagascar has been upgraded from an archaic system to a more global accounting plan, though there are still room for improvement.

Practical implications – The study is grounded in the practical development of national accounting and provides lessons for developments in other developing countries.

Originality/value – No other study has examined accounting developments in Mauritius and so the paper provides a key reference for future work.

Keywords Madagascar, Accounting history, Accounting, Regulation

Paper type General review

1. Introduction

Increasingly, globalization processes are determining economic and accounting activity. In order to demonstrate their engagement in this process, many countries are adopting international best practice or upgrading their systems and procedures in line with these as far as practical. This is also a reality in the accounting sphere. At the global level, the International Accounting Standard Board is propagating international financial reporting standards (IFRSs) around the world and countries are making efforts to either fully adopt or partly-adopt the IFRSs (Joshi and Al-Basketi, 1999; Boolaky, 2004a,b). This includes developing countries. For accounting in developing

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countries, see Wallace (1990), Briston (1990), Larson (1993), Boolaky (2004a,b). Some of them are either making full adoption to avoid cost implications but others are upgrading their local standards in line with the IFRSs (Boolaky, 2003). A few are not adopting the IFRS at all. This is true in the cases of a few ex French colonies (Boolaky, 2004a,b). However, Madagascar has shown its interests to align its accounting plan with the IFRS and issued the Accounting Plan 2005.

1.1 Motivation of the study

In developing economies, government-owned institutions are dominant economic forces and as such require an efficient and effective government financial management system. Berry and Holzer (1993) argue that the accounting systems installed in those countries were often too sophisticated for local requirements because they were imported from developed jurisdictions to underdeveloped ones. But this argument is less relevant today because of globalization and thus the importance of IFRSs around the world has grown.

Presently many developing countries are migrating to a free market policy through privatization and capital account liberalisation in order to increase competition and at the same time are opening up their economies by permitting entry to multinational corporations. The rationale behind this strategy is to demonstrate their economic freedom policy and the openness of the economy to the whole world – an aspect of globalization. Moreover, by adopting a similar strategy this improves the index of economic freedom of these countries which is, among others, a key economic indicator that foreign investors consider prior to investing capital in a country. Several African countries have already adopted this route and others are following suit with a view to improve their economic performance (Boolaky, 2004a,b). This would include Swaziland, Ghana, Mauritius, Botswana, Malawi, which have:

- set up their stock exchanges to stimulate both foreign and local investment;
- set up a one-stop shop policy for foreign investment;
- abolished exchange controls; and
- begun to move towards the adoption of international best practice.

With the setting up of the stock exchanges to include foreign listings, the number of users has significantly increased because both the general public and foreign investors can buy or sell shares on these stock exchanges. This implies that the financial reports of these companies should be prepared to satisfy the needs of a larger community of users coming from different parts of the globe. Hence, this requires a move towards International Accounting Standards (Nobes, 1998a,b).

The process of moving towards international standards differs from the past when developing countries could not afford to finance the cost of transiting from local standards to international standards or could not develop “adapted accounting standards” suitable to their needs (Tettley, 1991; Joshi and Al-Basketi, 1999). Presently mobility towards international best practice including financial reporting standards is conducted more cautiously and there is also more aid available from funding agencies for similar projects (Samuels and Oliga, 1982). Moreover, in the third millennium countries are not prepared to blindly adopt an international standard without initially making an in-depth study to assess its feasibility (Cairns, 2001). For the factors influencing the national accounting systems, see Choi and Mueller (1984), Hassan (1985), Nobes (1998a,b), Boolaky (2004a,b).

Madagascar, despite episodes of political and economic disturbance has also moved towards a privatization policy. Government-owned enterprises have been privatized thus reducing intervention of the government and opening up competition. Water, electricity, and transport services are few examples.

In 2001 Madagascar proposed the setting up of a stock exchange in order to involve a larger number of investors, both local and foreign, in the economy. This was an initiative supported by the Private Sector Supporting Funds. There is no active stock exchange yet operating. In order to support this project, the government in partnership with the private sector decided to review its business rules and regulations including accounting and reporting system in Madagascar. This was an important accounting development in Madagascar which nevertheless took 12 years. Madagascar has adopted a more enlightened approach so as not to repeat the experiences of 1960 onwards to 2000. The due process was adopted and proper training conducted (Doost, 1997).

Prior to 1960 the Madagascar Accounting Plan (MAP) was based on the French Accounting Plan (1947), and in 1969 a Local Accounting Plan was developed; however it contained many significant weaknesses such that it was set for revision in 1982. It took the government nearly nine years to release the 1987 Accounting Plan. Despite the time taken to develop the plan it also inherited a number of shortcomings when compared with IFRS. In 2001 the country decided to upgrade its accounting plan to the then International Accounting Standards and finally in 2005 issued a new accounting plan called "Accounting Plan 2005 in Harmonisation with International Accounting Standards".

Like many other countries, Madagascar is also embracing globalization and is claiming to adopt international best practice and standards. Its new Accounting Plan 2005 is, among others, a key document that the country is using to demonstrate to the international investors that their accounting plan is no longer an old fashioned plan but one in harmony with the IFRSs.

Up to now no study has been carried on the history of the accounting development in Madagascar over the last 100 years, with the exception of a study on the perception of the practitioners on the relevance and importance of IAS in Madagascar (Boolaky, 2003) and the study of Berry and Holzer (1993) which studied the restructuring of accounting function in Madagascar.

This paper depicts the history of accounting developments in Madagascar and provides an analysis of its accounting plans from 1960 through to 1987 and 2005. This is a challenging topic because there have been no previous studies on Madagascan accounting systems and practices. It is therefore important to report to accounting historians how accounting has developed and why it has been revised over time and finally able to claim to have migrated to IFRSs.

1.2 An overview of Madagascar

Madagascar is a Democratic Republic which obtained independence from the French colony in 1960. It is classified among the poorest countries in the world. Before 1960 the administration of Madagascar was carried out by the French Government (as the Reunion Island[1] is presently administered).

Up to 1975 Madagascar had a satisfactory economy and was sometimes cited as an example in the region. However, between 1975 and 1983 the country moved to a socialist regime and the economy suffered. In order to remedy the situation created over the previous eight years, the government decided to introduce a paradigmatic reform in the economy by disbanding state corporations, eliminating non-performing industries and focusing on privatization to attract foreign investments.

Over the last decade efforts have been made to promote tourism and manufacturing industries such as textiles. The agricultural sector is still a backbone of the country and employs nearly 80 percent of the working population as well as contributing up to 30 percent of the GDP. The secondary sector which comprises manufacturing and textiles contributes significantly to the economy and the majority of the investors in this sector are expatriates. The tertiary sector plays a key role in the economy and contributes to more than 50 percent of the GDP.

The civil war before the change of government in 2002/2003 has caused serious damage to the economic infrastructure. The people of Madagascar were no longer ready to continue accepting a concentrated power distance and a rise in corruption. They wanted good governance including transparency and accountability. In turn the new government was committed to rebuilding the country. The restructuring programme is under way and simultaneously relevant rules and regulations are being updated so as to align with the standard of international best practice(s) in the future. Yet Madagascar was ranked 82 over 146 countries in 2004 and the Corruption Score Index rated at 3.1 by Transparency International (2005).

Trade policy, fiscal burden, regulation, monetary policy, foreign investment, banking and finance, and inflation are all being looked at so as to improve the index of economic freedom of this country, hence making Madagascar a gateway for foreign investment.

The rest of this paper is organized as follows: Section 2 presents the history of accounting development in Madagascar, Section 3 is a comparison of the MAP 1989 and the IASs dated up to 2001 followed by a second comparison of Accounting Plan 2005 with IFRSs as from 2003. The purpose of the second comparison is to report whether the shortcomings recorded in the 1987 Plan has been addressed in the Accounting Plan 2005. Section 4 presents the existing shortcomings and or missings supported by a discussion based on related literature. Section 5 is the conclusion.

2. A history of accounting development in Madagascar

This section presents the history of accounting development in Madagascar beginning with the period of 1900 to the third millennium. It describes the development and important events that took place and reports its impact on the development of accounting systems and practices in Madagascar.

During 1900 to 1919 Madagascar was under the colonial administration of the French and the then governor general[2] used many types of suppression over other influences to install the French influence in the country. It was during the same period that the country became an import and export economy in coffee. There was no double entry accounting system in place other than keeping a journal book and an inventory book to record transactions[3] (for more details see Section 2.3 below). This was because France itself did not have any official accounting plan until 1947. However, when Germany temporarily took over France during World War I, it introduced its accounting plan as a system to monitor the government transactions. This plan was used until 1946 and in 1947 the French adapted this plan in France, but not in Madagascar.

After the World War II the French influence became stronger and the Malagasy was trained solely to French standards and schooled under the French system. Business related subjects such as accounting and finance were neither taught at school nor at university level. This deprived the Malagasy from learning and practicing book-keeping and accounts. Records of business transactions continued under the single entry book-keeping until late 1950, that is after the French Accounting Plan (1947) was introduced in France. The French Accounting Plan (1947) was used in Madagascar until 1969 when the country then developed its own accounting plan.

In 1960 Madagascar obtained independence from the French. It formed its own government and became a Republic. Until 1968 business entities were using the French Accounting Plan (1947)[4] (FAP) to record and prepare their annual accounts. This was despite independence as the country took some time to move from the French system to a system contextual and relevant to Madagascar in terms of business culture, types of business entities, accountability, and reporting culture as well as the level of professional education in the country (Choi and Mueller, 1984).

In 1969, Madagascar developed its own "Accounting Plan" and this was known as the "Plan Comptable Malgache" or MAP in English. The purposes of the MAP were mainly for tax reporting by business enterprises and for the preparation of national accounts and compilation of statistics by the government. This was a decision by the then Minister of Economic, Finance, and Budget with a view to adapt the FAP in the context of Madagascar.

The main weakness in the development of the MAP was the lack of consultation. The views and comments of relevant stakeholders were not sought and this resulted in a number of shortcomings that made the accounting plan ineffective. These shortcomings can be summarized as:

- There was no conceptual framework in the plan.
- There was no clear and standard format for the balance sheet and profit and loss account.
- There was no guide as to the use of the chart of accounts or of valuation methods.
- The plan was silent as regards accounting bases such as depreciation.
- The plan did not make any recommendations for accounting for intangibles.
- Accountants could not determine which aspects of the chart of accounts and the valuation methods were relevant.

The government discovered these shortcomings from the tax returns submitted by business entities to the Inland Revenue. It was difficult for the Inland Revenue to properly assess the correctness of the returns because the MAP did not provide a proper reference point. This was exacerbated by the low rate of submission of returns to the Inland Revenue.

Given that the details from the accounts of business enterprises were used for the national accounting and statistics purposes, it was also very likely that the government was not capturing proper, accurate and reliable records due to the shortcomings in the Accounting Plan 1969. A classical example would be the statistics on tax. Despite these shortcomings Madagascar continued using the plan until 1987 because it did not have any alternative for over a period of nearly 20 years prior to updating its 1969 Accounting Plan. In part this was due to a lack of qualified professionals in the country who could upgrade the plan, combined with the lack of other external lobbying for change.

In 1982 the government launched a project with the sole objective of eliminating all the weaknesses that existed in the 1969 Plan. There were three motives behind the revision of the 1969 Plan, namely:

(1) French influence and loyalty;

(2) sources of foreign investment; and

(3) the African influences.

This would enable an upgrade to the New FAP 1979 (FAP). In order to demonstrate its loyalty Madagascar complied with the developments in regulation taking place in France.

Madagascar was a follower of the French system because a large number of investors during that time were French or from French speaking jurisdictions. For that reason Madagascar preferred that its accounting system was based on the FAP. However, this disregarded the importance of Madagascar and its mineral and ecological resources to the rest of the world.

Moreover, being a member of the Organisation of African Community (OCAM), Madagascar was also inspired by the accounting plan of that economic bloc. As a result, the new accounting plan was also developed to harmonize with the OCAM Accounting Plan[5]. This explains that the revised accounting plan (RAP) became a hybrid of the FAP 1979 and the OCAM accounting plan.

It took the government seven years to complete the "Revised Accounting Plan 1987" (RAP). The delay in producing the RAP was due to a lack of qualified professionals and other experts in the accounting domain. Though ready, the New Accounting Plan 1987 was not issued for another three years until 1990. This was due to the predominance of the "Red Book" of government policies and theories produced by the then President[6].

In order to address the shortcomings and weaknesses found in the 1969 Plan, the 1987 Plan was divided into the following parts, namely:

- accounting principles;
- format for financial statements;
- statement of sources and applications of funds;
- chart of accounts;
- flow-charted control procedures for a business entity; and
- a guide to assist users in utilizing the plan.

In fact the 1987 Plan provided a number of signify cant improvements over the 1969 Plan. It was rather close to the FAP 1979. The 1987 Plan contains six basic accounting principles and the account class headings harmonized to more than two thirds of the contents in the FAP 1979. Seven of the account class headings in 1987 Plan harmonize with the nine class heading of the FAP 1979. Compared with the 1969 Plan, the 1987

Plan also contained guidelines for improving management of business organizations including planning and control. This demonstrates that the 1987 Plan was developed after taking into account the French influences on the trade of Madagascar alongside considering the context of the country. In addition the 1987 Plan was developed by adopting a "due process" approach, thus including all relevant parties in the process. Practising accountants, lawyers, finance managers, academics and government departments including the Ministry of Finance were involved in the whole process. Compared to 1969 this plan improved significantly and fundamentally the Accounting Plan in Madagascar. Yet it was far behind the IFRS (Boolaky, 2003).

2.1 1990 to the present

Since 1990, Madagascar has been following the 1987 Plan. Both public and private companies have been maintaining records and preparing their annual accounts in accordance with the plan.

Between 1990 and 2000 there have been significant changes on the international arena. The World Trade Organisation requirements have been upgraded; the African Growth Opportunity Act, 2000 was issued; the International Accounting Standards Committee developed new standards as well as revised existing standards; and in the African region member countries in the economic blocs (such as the Southern African Development Community and Common Market for Eastern and Southern Africa, Eastern, Central and Western African Association) have already joined the process of harmonization of systems and procedures to international best practicey. A further set of developments concerns the areas of corporate governance, transparency and accountability. These changes have all required a response in the systems and practices in Madagascar, especially the areas of financial accounting and reporting.

In 1998, the Supreme Accountancy Council (SAC) was set up under the Decree No. 98-442. The SAC was under the purview of the Ministry of Economic, Finance, and Budget. The mission of the SAC was to promote the accountancy profession in Madagascar. It comprised 22 members including the chairman and the five vice-chairman. The chairman is nominated by the Ministry of Finance. This regulation of the accounting profession was the only move to upgrade the 1987 Plan.

2.2 Post 2000

In 2001, the Private Sector Supporting Funds organized training on International Accounting Standards and the 1987 Plan. This was funded by a credit agreement between the World Bank and the Republic of Madagascar. The training was conducted by Grant Thornton of Mauritius. The main objectives of the training programme were:

- To make qualified accountants of Madagascar proficient in International Accounting Standards.
- To enable practitioners to apply IFRSs in the preparation of accounts.
- To compare the 1987 Plan with IFRSs.

In the same year a survey was carried out on the relevance and applicability of IFRSs in Madagascar (Boolaky, 2003). This survey revealed that the perceptions of the practitioners of the relevance, importance and applicability of IFRSs in Madagascar vary. Seventy-five percent of the respondents in the survey were apprehensive about IAS 12, 19, 26, 29, and 32.

In its budget 2002, the government announced its plan to upgrade the 1987 Plan to the IFRS so as to make accounting reports more transparent and credible. The government in partnership with the Order of Professional Accountants was responsible for revising the plan (*L'express Madagascar*, 2003). In 2005 the General Accounting Plan 2005 in Harmonization with IFRS (2005 Plan) was issued under the Decree No. 2004-272. In this new plan Madagascar claimed to have harmonized with the IFRSs. The next section of the paper addresses this issue by firstly reporting on the disharmony in the 1987 Plan with IFRS and secondly how far the disharmony identified in the 1987 Plan have been eliminated or minimized in the Plan 2005. It will also report on any shortcomings not addressed in the 2005 Plan and present a discussion on the reasons for these shortcomings.

2.3 History of accounting regulation in Madagascar

Accounting regulation in Madagascar began with the Code of Commerce (1807) of France which then became law in July 1856. It was made applicable in Madagascar by a Decree of December 28, 1895 which was then modified by the law of November 16, 1903. In fact the Code of Commerce has been reviewed and revised several times since 1807 in order to update it to the present time. The main amendment as regards regulation of accounting was in the Decree of September 22, 1953 (Journal Officiel de Madagascar No. 3676, du 30.4.1955, p. 1043). The Appendix gives a chronology of the changes in the Code of Commerce (1807).

The principal provisions in the Decree of September 22, 1953 was found in Title II and addressed in ten articles namely; article 8 to article 17. It is important to note that the French word "Article" is translated as "Article" itself for the purpose of this paper. Below is a translation of the provisions in each of these ten articles:

> Article 8: Any individual or legal entity, who is a trader, must keep a book of original entry recording the day to day transactions of the undertaking or summarizing at least, monthly the totals for the transactions on the condition that, in this case, all documents, which would allow these transactions to be verified for each day, are kept.

> Article 9: The trader should also, each year, carry out a stock take of the assets and liabilities of his undertaking and close off all accounts so as to prepare his balance sheet and profit and loss account. The balance sheet and profit and loss account are copied into the inventory book.

> Article 10: The journal and inventory book are kept in chronological order without blanks or alterations of any kind. They are numbered and signed by the judge of the commercial court, or a tribunal having commercial jurisdiction, or a justice of the Peace, or depending on the case by the mayor or his deputy, the regional head of the district or his deputy in the usual form and without costs.

> Article11: The books and documents referred to in articles 8 and 9 must be certified and preserved for a period of 10 years. Both correspondences received and copies of letters sent must be filed and preserved for the same period.

> Article 12: Trader's books, duly kept, may be admitted by the judge as evidence between traders of acts of trade.

> Article 13: The books which individuals who trade are obliged to keep, and for which they would not have followed the formalities set out above, may not be presented or used in Court,

for the benefit of those who have kept them, without prejudice to that which is set out in Boo III "of Insolvencies and of Bankruptcies".

Article 14: Disclosure of books and inventories can only be ordered in court in matters of probate, community of goods or property, dissolution of partnerships, and in cases of bankruptcies.

Article 15: In the course of litigation, the judge may order the production of the books, even pro prio motu, so as to extract there from that which relates to the dispute.

Article 16: In the case where the which are offered, required or ordered to be produced, are found in a place which is distant from the tribunal seized of the matter, the judges may address a rogatory commission to the commercial court of the place where the books are found or depute a Justice of the Peace to examine same, draw up an official report of the contents and send it to the tribunal seized of the matter.

Article 17: If the maker of the books which are sought to be produced refuses to produce them, the judge may decide the matter by reference to statements made under oath by the other party.

3. Comparing 1987 Plan with the IAS

The 1987 Plan contained many weaknesses and shortcomings when compared with the IAS. The 1987 Plan was about 70 percent behind the developments in the IAS in 2003 (Boolaky, 2003). Boolaky (2003) carried out an in-depth study of the contents of the 1989 Plan and compared it with the IAS as well as conducting an empirical study on the relevance of IAS in Madagascar. Tables I and II below report the findings of the 2003 study[7]. The details in Table I locates the contents of the MAP 1987 and the IAS whereas Table II reports on the classification of the IAS in Madagascar by applicability and importance. The data from Table I is then used to investigate how far the gaps identified in 1987 Plan were addressed in the 2005 Plan.

The reasons for the missing IASs in the 1987 Plan is because the Commercial Law or Code of Commerce in Madagascar did not make any provision as regards "a group of companies" obligations to prepare group accounts, although there were many group companies (societies) in the country. The Ministry of Economics, Finance, and Budget did not consider this issue important enough to include in the 1987 Plan because the law itself was silent on the obligation to prepare group accounts. However, anecdotal evidence (after 2000) indicates that sometimes the auditors may require the group to consolidate accounts in order to reveal compliance with the International Accounting Standards. As regards accounting for hire purchase and leasing, again the law dealt with the legal procedure but nothing on the accounting aspects of it[8]. The 1987 Plan did not address accounting for hire purchase and leasing because the only transactions taking place were in respect of operating leases whose treatment is made as expense in the profit and loss account.

3.1 An overview of the 2005 Plan

The 2005 Plan is one hundred pages long including appendices. It is divided into two main parts. Both parts One and Two are further divided into three sub-parts with five appendices in all. The plan is supplemented by a Guide to assist in its application. Unlike the Guide, the plan is mandatory. The Guide mainly explains the accounting treatment with illustrative examples.

Part One deals with the conceptual framework, financial statements, and accounting principles and bases whereas part Two addresses organisational control,

IAS/IFRS	Titles	Page No. in Madagascar Accounting Plan (1989)
1	Presentation of financial statements	Page 11-26, 189
2	Inventories	Page 47-58, 120
7	Cash flow statements	Page 174-183
8	Accounting policies, changes in accounting estimates	Missing (see note 1)
10	Events occurring after the balance sheet date	Missing
11	Construction contracts	Page 143-153
12	Income taxes	Page 94, 95, 153
14	Segmental reporting	Missing
15	Information reflecting the effects of changing prices	Page 124-128
16	Property, plant, and equipment	Page 58-69 119
17	Leases	Missing
18	Revenues	Page 28-34
19	Employee benefits	Missing
20	Accounting for government grants	Page 100-106
21	The effects of changes in foreign exchange rates	Page 114-119
22	Business combinations	Missing
23	Borrowing costs	Page 35, 61, 62
24	Related party transactions	Missing
26	Accounting and reporting by retirement plans	Missing
27	Consolidated financial statements	Missing
28	Accounting for investment in associates	Missing
29	Financial reporting in hyperinflationary economies	Missing
30	Disclosures in financial statements of banks (see note 2)	Accounting plan for banks
31	Financial reporting of interest in joint ventures	Missing
32	Financial instrument: presentation	Missing
33	Earnings per share	Missing
34	Interim financial statements	Missing
35	Discontinuing operations	Missing
36	Impairment of assets	Page 113
37	Provisions, contingent liabilities, and contingent assets	Missing
38	Intangible assets	Page 58-69
39	Financial instruments: recognition and measurement	Missing
40	Investment property	Missing
41	Agriculture	Missing

Notes: Missing means this topic is not addressed in the MAP 1987 and was supposed to be dealt with in PCG 2005. IFRS 7 was issued to enhance IAS 30 and 32
Source: Boolaky (2003, p. 89)

Table I.
Comparing MAP 1987 with International Accounting Standards (2001)

code, classification and heading of accounts, and end with the functions and purpose of the accounts. The function and purpose of individual accounts are clearly expressed in the Plan 2005 and this type of information is not available in the IFRSs. Figure 1 describes the organization of the 2005 Plan.

Compared with the other Accounting Plans (1969 and 1987), the 2005 Plan is much more structured and has addressed many issues relating to the requirements of IFRSs. In neither of the previous plans was there any section which addressed the conceptual framework of accounting which is an imperative for the preparation and presentation of financial statements. Both plans focused on the classification of accounts and their functions, providing formats of financial statements which were archaic (an example being the SSAP ten statement of sources and application of funds), with less emphasis on a conceptual framework. There was no adequate definition of terms such as assets, liabilities, and equity which leads to the risk of wrong classification and recognition. This type of shortcoming undermines the fair presentation of the financial statements.

However, there is a focus on the conceptual framework in Part One of the 2005 Plan which borrows materials from the IFRS. The framework contains the basis for preparing and presenting financial statements, the basic accounting conventions and fundamental accounting concepts as well as the qualitative features of financial information. The conceptual framework is used as a reference for preparing financial statements and for facilitating the interpretation of accounting rules and ambiguous transactions not provided in the accounting rules.

Operations of book-keeping, accounting and control are dealt with in Part Two of the 2005 Plan. This is the part where the plan has retained its traditional Roman-Based

Table II. Classifying IAS by applicability/relevance/importance in Madagascar

IAS by applicability/relevance/importance	Applicable/relevant/important (respondent perception in percent)	Not applicable/relevant/important (respondent perception in percent)
12, 19, 26, 29, 32	25	75
14, 15, 20, 22, 24, 25, 27, 28, 30, 31, 33, 34, 35, 39, 40 41	50	50
1, 2, 7, 10, 11, 16, 17, 18, 21, 23, 36, 37, 38	75	25

Source: Boolaky (2003, p. 89)

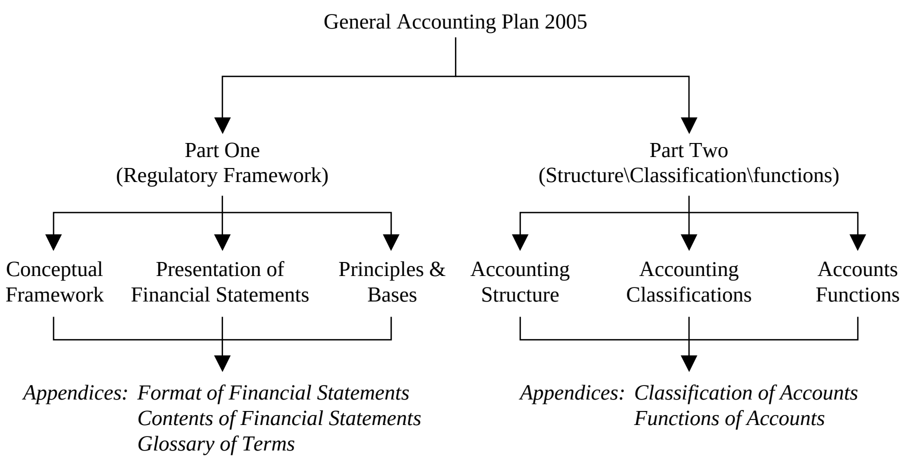

Figure 1. A description of the structure of the general accounting plan 2005

Model which includes accounts classification, purpose of each account and their functions. It is interesting to note that Part Two, which closely resembles the previous plan in classification and coding, is maintained so as not to cause a paradigm shift in the systems and also to avoid increasing the costs of accounting. In fact all businesses already have their software based on the French system. The other reason for keeping the functions of accounts and coding is that they form an integral part of an accounting plan rather than being similar to accounting standards. An accounting plan is much more oriented to book-keeping where coding is essential.

In addition, there are five other specific accounting plans and each of them deals with a specific industries, such as: Banking, Insurance, Credit, Tourism, and Hotels and Agriculture. At the time of writing the Accounting Plan for Insurance companies was in progress. In fact the 2005 Plan has taken into account the accounting and reporting requirements of multinational enterprises in Madagascar.

3.2 Comparing the 2005 Plan with the IFRS

This section compares the 2005 Plan with the IFRS. The objective is to report the extent to which the plan has been upgraded to harmonize with the IFRSs, followed by a discussion on issues or areas not dealt with in the plan. Table III compares the 2005 Plan with IFRSs. It then follows with an 'Evolutionary Table' to reveal how the 2005 Plan has upgraded the 1987 Plan to harmonize with the IFRS.

4. Shortcoming and discussion

Table III reports 12 missing items in the 2005 Plan when compared with the IFRSs. There are no explanations either in the plan itself or in the Guide to the plan as regards the reason for the missing items. However, IFRS 1, 2, 4, 5, 6, and 7 are missing in the 2005 Plan because these IFRSs were issued after the publication of the Plan. In fact the 2005 Plan was made official on April 28, 2004 under Decree 2004-272. Presently, there is no sign of upgrading the 2005 Plan[9].

4.1 IAS 10: Events occurring after the balance sheet

Accounting for post balance sheet events has been dealt in a very random manner in the 2005 Plan. In the conceptual framework, Chapter 2, Section 3, the plan only refers to the disclosure of a non-adjusting post balance event whereas page 47 refers only to the post balance sheet events as notes to the accounts, and Annex 3 page 39 only defines and classifies post balance sheet events, but does not clearly recommend the accounting treatments as in IAS 10. It does not even illustrate examples of post balance sheet events. Post balance sheet events are common in the context of Madagascar given its economic situation and therefore examples of non-adjusting and adjusting events as per the IAS could therefore be used to determine a post balance event and its nature. In this case, practitioners would have to refer to and copy from the IAS 10 to determine an adjusting or non-adjusting event.

4.2 IAS 14: Segmental reporting

Segmental report is a requirement for listed companies. The 2005 Plan has not accommodated segmental reporting because there is no listed company in the country. For internal purpose companies in Madagascar disclose segmental reports for decision making but this information does not come in the public domain. The deficiency is that

IAS/IFRS	Subjects	Part/title/page number in Accounting Plan 2005
IFRS 1	First adoption of IFRS	Missing
IFRS 2	Share-based payments	Missing
IFRS 3	Business combinations	Title III, Chapter 5, Section 5, page 35
IFRS 4	Insurance contracts	Missing
IFRS 5	Non-current assets held for sale and discontinued operations	Missing
IFRS 6	Exploration for and evaluation of mineral resources	Missing
IFRS 7	Financial instrument disclosure	Part II, Title 2, Chapter 3, Acc. 52, page 19
1	Presentation of financial statements	Part I, Title II, Chapter 1-4, 6, page 9-12, 14, page 9-12 deals with balance sheet and income statement and page 14 notes to the accounts
2	Inventories	Title III, Chapter 3, Section 3, page 22
7	Cas h flow statements	Title II, Chapter 5, page 13
8	Accounting policies, changes in accounting estimates	Title III, Chapter 4, Section 7, page 31
10	Events occurring after the balance sheet date	Part 1, Title I, Chapter 2, Section 3, Annex 2, page 47, Annex 3, No. 39
11	Construction contracts	Title III, Chapter 4, Section 2, page 27
12	Income taxes	Title III, Chapter 4, Section 3, page 27
14	Segmental reporting	Missing in 1987, in 2005
15	Information reflecting the effects of changing prices	Missing in 2005, not 1987
16	Property, plant, and equipment	Title III, Chapter 3, Section 2, page 20
17	Leases	Title III, Chapter 4, Section 4, page 28
18	Revenues	Title III, Chapter 3, Section 8, page 25
19	Employee benefits	Title III, Chapter 4, Section 5, page 29
20	Accounting for government grants	Title III, Chapter 3, Section 4, page 23
21	The effects of changes in foreign exchange rates	Title III, Chapter 4, Section 6, page 30
22	Business combinations	Title III, Chapter 5, Section 5, page 35
23	Borrowing costs	Title III, Chapter 3, Section 6, page 24
24	Related party transactions	Missing in 1987 update in Title 12, Chapter 3, page 120, Guide 2005
26	Accounting and reporting by retirement plans	Missing in 1987, in 2005
27	Consolidated financial statements	Title III, Chapter 5, Section 2, page 32
28	Accounting for investment in associates	Title III, Chapter 5, Section 3, page 33
29	Financial reporting in hyperinflationary economies	Missing in 1987, in 2005
30	Disclosures in financial statements of banks (see note 2)	New accounting plan for banks (plan comptable pour la Banque Centrale, plan Comptable des Etablissement des Credits)
31	Financial reporting of interest in joint ventures	Missing in 2005, not 1987
32	Financial instrument: presentation	Missing in 1987, update in Part II, Title 3, para ac. No. 52. in 2005 (much more book-keeping)

(continued)

Table III.
Comparing 2005 Plan with IFRS

IAS/IFRS	Subjects	Part/title/page number in Accounting Plan 2005
33	Earnings per share	Missing in 1987, in 2005
34	Interim financial statements	Missing in 1987, in 2005
35	Discontinuing operations	Missing in 1987, in 2005
36	Impairment of assets	Title III, Chapter 3, Section I, page 17
37	Provisions, contingent liabilities and contingent assets	Title III, Chapter 3, Section 5, page 24
38	Intangible assets	Title III, Chapter 3, Section 1, page 17
39	Financial instruments: recognition and measurement	Missing in 1987, in 2005
40	Investment property	Missing update Title 3, Chapter 3, Section 1, page 19 in 2005
41	Agriculture	Missing in 1987, only biological assets in Title 3, Chapter 3, page 20 in 2005, but there is a separate accounting plan for agriculture

Notes: Missing means this topic is not addressed in the MAP 1987and was supposed to be dealt with in PCG 2005. IFRS 7 was issued to enhance IAS 30 and 32
Source: Boolaky (2003, p. 89), PCG 2005, Guide Generale prepared by, OECFM, Ministry of Finance, Supreme Accountancy Council)

Table III.

users do not get a transparent picture of the company and therefore cannot discover which segment or SBUs of the company are not performing well.

4.3 IAS 32 and IAS 39: Financial instruments – recognition, measurement, and presentation

Financial instruments are addressed in Class 5 of the 2005 plan. It emphasizes the book-keeping entries in the accounting records, but does not go into the details as specified in the IASs 32 and 39. The plan does not provide any explanation in so far as the risks related to financial instruments are concerned. Discussions with practicing accountants in the country reveal that accounting for financial instruments is considered a complex issue.

4.4 IAS 33: Earnings per share (EPS)

Basically EPS also applies to listed companies as an important index for both existing and potential investors. It is important to note that 2005 Plan is silent on the disclosure of EPS in the financial statements because there is no active stock exchange and thus no stock exchange rules prevailing in the country. Therefore, there is no legal requirement for the disclosure of EPS in the country contrary to the Anglo-Saxon jurisdiction where the disclosure of EPS is made by both private and public companies.

4.5 IAS 34: Interim financial statements

Fundamentally interim financial statements apply to companies listed on the stock exchange. Given that there is no active stock exchange in this country, standard setters did not consider it necessary to include interim financial statements in the 2005 Plan. There is no requirement for large and medium companies to file any interim financial statements during the year. This situation justifies the argument that IFRSs may not necessarily be relevant everywhere in the world. Even the 2003 survey results conducted by Boolaky reported that only 50 percent of the respondents found interim financial statements relevant and important in Madagascar. However, if in the future Madagascar set up its stock exchange, then the MAP 2005 will have to accommodate a section on discontinued operations.

4.6 IAS 35: Discontinued operations replaced by IFRS 5

This is a very important area that 2005 Plan has ignored. The philosophy behind including discontinued operations as an IFRS is that it would enhance the fair presentation of the financial statements. This would allow users to make a better assessment of the company's performance because they would be able to discern from the financial statements which segment of the company is being discontinued and then assess its impact on both shareholder value and corporate value. Although there are many group companies in Madagascar, neither users nor standard setters have given due importance to this area in the preparation of financial statements. Hence, none of the company financial statements in the country reports on discontinued operations.

4.7 IAS 40: Investment property

This item is not dealt with in detail in 2005 Plan, except in a few sentences in Title 3, Chapter 3, paragraph 331.15-17. However, the details as regards measurement and the book-keeping treatment are found in Chapter 2, pages 40-41 of the Guide. This type of transaction is very rare in Madagascar and the property industry is also very small – there are merely a few property agency companies which act principally as agents for home owners for the sale or letting of their properties to potential clients.

4.8 IAS 41: Agriculture

Accounting for agriculture is not addressed in 2005 Plan but in a separate plan called Plan Comptable D'Agricole (Agricultural Accounting Plan). This plan is basically to be followed by the large companies. However, agricultural activity such as rice cultivation, though on a large-scale, is undertaken by sole traders or producers grouped in co-operative societies who are not required to prepare accounts that comply with international standards as would be the case for companies. The cost that would be incurred to prepare accounts as per the provision of IAS 41 would be too high, without the practical problem in valuing agricultural/biological assets. Despite the Code of Commerce provisions, anecdotal evidence revealed that many of the agriculturists do not even prepare a financial statement if they are operating as sole traders; and the accounts of the co-operative societies are very overdue.

Table IV summarises the status of the MAP between 1987 and 2005 compared with the IFRSs.

5. Conclusion

This paper has presented the history of accounting development in Madagascar taking into account the law that mandated accounting in the country. This began with Code of Commerce in France and the requirement for accounting. Then the French Accounting

IAS/IFRS	1987 Plan	2005 Plan	Still missing
8: Accounting policies 1, 2, 4, 5, 6	Missing	Covered	
10: Events occurring after the balance sheet date	Missing	Covered	
14: Segmental reporting	Missing	Missing	Segmental reporting
17: Leases	Missing	Covered	
19: Employee benefits	Missing	Covered	
22: Business combination	Missing	Covered	
24: Related party transactiosn	Missing	Covered	
26: Accounting and reporting by retirement plans	Missing	Missing	
27: Consolidated financial statements	Missing	Covered	
28: Accounting for investment in associates	Missing	Covered	
29: Financial reporting in hyperinflationary economies	Missing	Missing	Inflation accounting
31: Financial reporting of interest in joint ventures	Missing	Missing	Interest in joint venture
32: Financial instrument-presentation	Missing	Covered	
33: Earnings per share	Missing	Missing	Earnings per share
34: Interim financial statements	Missing	Missing	Interim financial statements
35: Discontinued operations	Missing	Missing	Discontinued operations
37: Provisions, contingent liabilities, and contingent assets	Missing	Covered	Provisons
39: Financial instruments, recognition, and measurement	Missing	Missing	Financial instruments recognition/measurement
40: Investment property	Missing		Investment property agriculture
41: Agriculture	Missing		
IFRS 1: First time adoption	Not yet issued by IASB when the Madagascar Accounting Plan (2005) was promulgated	Missing	
IFRS 2: Share-based payments			
IFRS 3: Business combination			
IFRS 4: Insurance contract			
IFRS 5: nn current assets held for sale and sicontinued operations			
IFRS 6: Exploration for and evaluation of of mineral resources			
IFRS 7: Financial instruments disclosure I			

Table IV.
Status of MAP 1987-2005

Plan (1947) and the MAP 1969 were discussed including the latter's weaknesses. A comparison of the 1987 Plan with the IAS up to 2001 was made and the omissions recorded. The results of a survey conducted by Boolaky, 2003 is also reported and then used as bench mark to follow up and report the extent to which the 2005 Plan is in harmony with IFRSs. The lesson drawn from this paper is that the 2005 Plan is not fully in harmony with the IFRS and that the 2005 Plan omits several important standards. This is due partly to the fact that a few of the IFRSs were issued after the 2005 Plan and secondly that some standards have not been addressed because they are complex or deal with voluntary issues. Presently there are 12 issues not dealt with in the 2005 Plan. This situation brings us to the conclusion that the 2005 Plan is not in total harmony with the IFRS in many respects because of the context of the country and also due to less importance being given to transparency as regards private enterprises.

Notes

1. Reunion Island is a French dependence located in the Indian Ocean. Due to this France appears as a member of the Indian Ocean Commission.
2. The governor general was Générale Joseph Galliéni and he suppressed all other influences and made French the official language of Madagascar. He abolished slavery but introduced a severe tax regime that would put anyone who were unable to pay their tax into forced labour (a disguised form of slavery).
3. Code of Commerce (1807) of France which was made applicable in Madagascar.
4. The French Accounting Plan (1947) is translated as Plan Comptable Générale 1947.
5. OCAM comprised of African countries including Madagascar and Mauritius.
6. During this period Madagascar was influenced by communism and the tie with France was almost frozen. The red book of policies and theories written by the Presdident Ratsiraka was mainly oriented towards a central planning regime.
7. This study used IFRS to cover the use of international standards both prior to and after the reform of the International Accounting Standards Committee in 2001.
8. The Ordinance No. 60-050 deals with leases between lessor and lesee, but was silent as regards its accounting This ordinance was passed on 22.01.1960.
9. The conclusion is reached following discussion with accountants during the first author's visit to Madagascar when conducting archival research for the completion of this paper.

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Further reading

Belkaoui, A. (1988), *The New Environment in International Accounting: Issues and Practices*, Quorum Books, Westport, CT.

International Financial Reporting Standards Hand Book (2006), International Financial Reporting Standards Hand Book 2004.

(The Appendix Table follows overleaf.)

Appendix

Dates	Events/issues	Sources
18.07.1856	Code of Commerce became law	*Official Journal of Malagasy*, No. 1260, Date: 21.05. 1910, p. 396
23.03.1863	Law of 1856 modified	
28.12.1895	Modified law of 1863 made applicable in Madagascar by Decree of 28.12.1895	
16.11.1903	Decree of 1895 modified by law and made applicable by Decree 20.03.1910 and enacted on 14.05.1910	
22.09.1928	Decree of 29.09.1928 – To create a register of commerce	*Official Journal of Malagasy*, No. 2224 Date: 01.12.1928, p. 1637
03.09.1936	Decree of 1936, enacted on 24.10.1936 – Article 34 deals with obligations by the board to prepare accounts of companies (societe). The financial statements shall be submitted to the auditor at least 40 days before the general assembly	*Official Journal of Malagasy*, Date: 31.12.1939, p. 997
22.09.1953	Decree of 22.09.1953 – Articles 8-17 dealing with book-keeping and accounts requirements and the books of accounts to maintain by any trader/businessman either individual or group	*Official Journal of Malagasy* No. 3676, Date: 30.04.1955, p. 1043
13.11.1956	Decree No. 56-1143 – Article 35 – Obligations to present accounts to general assembly for approval	IMBIKI Anaclet (1999)
22.06.1960	Ordinance No. 60-050 – Deals with report between lessor and lessee as regards lease renewals	*Official Journal of Malagasy* No. 106 Date: 02.07.1960, p. 1109
17.09.1987	Decree No.87-3322 – Deals with Malagasy General Accounting Plan	Accounting Plan, 2005, preface
18.06.1998	Decree No. 98-442 – Refonte du Supreme Accounting Council	
30.12.2003	Law of Finance, 2004	
26.04.2004	Decree No. 2004-272 – Approval of the Accounting Plan 2005	

Table AI. Important dates in the development of accounting regulations in Madagascar

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