

Study the accounting policies and the financial position for the Islamic banks - Case study of an Islamic bank -

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Abstract:

The study aims to define the accounting policies and know the financial position of Islamic banks, and the study also includes dealing with accounting standards, financing and investment assets that are compatible with the AAOIFI standard, as during the case study of the Jordanian Islamic bank in the period from 2009-2019. The results of the study were represented in achieving high levels of savings accumulation by the bank, achieving large rates of investment, and applying accounting standards with high accuracy.

key words: accounting standards, Islamic banks, levels of savings .

Introduction:

The accounting policies of the assets and investments of Islamic banks are based on financial disclosure and transparency in preparing the financial statements, to give a clear picture of everything related to financing and investment operations, and knowledge of the financial position of Islamic banks is very important, in addition to the need to respect accounting standards and AAOIFI standards, to gain confidence Customers.

But before that, the financing and investment formulas in force by Islamic banks are known, then the financial position and financial position of Islamic banks is known, in order to determine whether the bank under study is more than a model for searching for the research problem, which revolves around the following problem.

The problematic: What are the accounting policies used in Islamic banks and how is their financial position?

In order to answer this problem, we first touched upon the financing formulas used in Islamic banks, and analyzed the Islamic financing and investment assets of the Jordanian Islamic Bank that are in line with the AAOIFI standard, then determining the financial position of the Jordanian Islamic bank under study to find out the financial position.

THE FIRST TOPIC : THE GENERALITIES OF ISLAMIC BANKS

The Islamic Banking Law in its establishment and statute stipulates the principles of Sharia law, and not to deal with interest.

FIRST REQUIREMENT: DEFINITIONS OF ISLAMIC BANKS

Firstly: Definition Of Islamic bank

Banking financial institutions that collect funds and employ them in accordance with the provisions of Islamic law to serve the Islamic solidarity community, and achieve fair distribution, with a commitment not to deal with interest and to avoid any action contrary to the provisions of Islam.

Secondly: Business rules for Islamic banks

Islamic banks rely on the following rules and principles (SEMRED, 2021):

- Not dealing with interest
- Sharing in profit and loss.
- The result of the investment may be a profit or a loss.
- Dealing with Islamic financing forms such as Musharakah, Mudaraba, Murabaha, Salam, and other forms of financing.
- Directing savings to areas that serve economic and social development.
- The goals of economic development are social development first, and the Islamic bank has a role in achieving this development
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SECOND REQUIREMENT: CHARACTERISTICS AND DEALING OF ISLAMIC BANK

Firstly: Characteristics of Islamic banks

The characteristics of Islamic banks are many, they are summarized as follows (SEMRED, 2021):

- Granting financing to achieve development, through investment financing.
- The Islamic bank works to achieve this through direct investment: the Islamic bank invests funds in commercial, agricultural and industrial projects that generate a return on it.
- Participation Investment: The contribution of the Islamic bank to the capital of the investment project and becomes a partner in the ownership, management and

supervision of the project, and thus it is a partner in profit and loss according to the ratio agreed upon by the partners.

- Linking economic development with social development, as the bank considers, from the Islamic concept, social development as a basis for achieving economic development. Therefore, Islamic banks are primarily social banks seeking to achieve social solidarity not only in terms of collecting zakat and disbursing it in its legitimate places but in how Distribute the return on invested funds fairly, after covering their expenses.

Secondly: Dealing with profit and loss base

The failure of Islamic banks (Khalaf, 2006) to deal with interest gives them a strong incentive to enter the field of transactions without being bound by defined limits for interest that may not be controlled by the state or central banks, but rather by external economic and political currents, which restricts the volume of transactions and complicates their methods and increases their risks, especially in light of Economic and political changes.

If the Islamic banks (SEMRED, 2021) do not deal in interest, then they operate in the profit and loss sharing system, meaning that the entitlement to profit depends on bearing the risk. That is, he guarantees the negative results that may happen and he bears them in exchange for his entitlement to a share of the profit if it is achieved, and this is the meaning of bearing the profit and loss, that is, participating in taking the profit if it occurs, it must be equivalent to bearing the loss if it occurs

Third: Formulas of Islamic bank financing

Islamic finance is carried out in Islamic banks through the most important formulas: murabahah, speculation, leasing, musharakah, salam, and istisna'a, among others. These formulas allow creating a real economy as they are based on compensation contracts or shares.

1- Participatory financing formulas

a- Participation:

A contract (Khaled, 2008) for the participation of two or more in financing a project, provided that the profits are shared according to the agreement, as for the loss, it must be according to the percentage of participation.

b - Mudarabah:

A contract (Khalaf, 2006) between two parties, in which one party provides money and the other provides the work, as it is based on the payment of money from the first party to the second party to trade in it, provided that the profit is shared between them in agreed rates. If a loss has been realized, it will be borne by the owner of the money unless it is proven that there is default, negligence or infringement on the part of the business owner.

In addition, the latter does not receive compensation for his efforts in the event of loss, in order to ensure equality between him and the owner of the money, as they lose together or win together.

2- Forms of commercial financing

a- Murabaha:

A sale contract between two parties, one of whom undertakes to sell a commodity to the second party in exchange for a profit margin to be added to the price in which the first one bought it from the market, provided that the second party knows the price of the original commodity, and after the second party receives the commodity, he can pay what he owes immediately. Or during a period of time according to the agreement

Murabaha is divided into two types (Aziz, 2005):

- Ordinary Murabaha: In this type, the bank studies market conditions, assesses its needs, and buys goods accordingly without the need to rely on a prior promise to purchase them, and then offers them for sale at a price greater than the first, and thus it consists of two parties: the bank is the owner of the commodity and the buyer or customer who desires In obtaining the commodity already in the bank.

-Profitable sale to buy: the Islamic bank (Nasser, 2006)in this case purchases goods or equipment at the request of the customer and then resold them to him with a specific and agreed profit margin, and thus it consists of three parties: the seller who is the owner of the commodity, the buyer He who desires to acquire them, who determines their specifications for the bank accurately, promises to buy them, and the bank as an intermediary between the seller and the buyer.

b- Salam:

A contract for expediting the price and delaying the appraiser, which is the opposite of a forward sale, and salam can be considered as an agreement between the bank and another party to purchase a commodity of a certain type with a specified quantity and quality at a predetermined price delivered on a specified later date, and the bank pays the purchase price upon signing the peace contract, or Within a subsequent period not exceeding two or three days.

3- Forms of contracting and leasing financing

a- Istisna'a:

The Istisna'a formula contributes to industrial development and the exploitation of idle production capacities in the field of industry.

It is a contract between the manufacturer (the buyer) and the manufacturer (the bank), at the request of the former, for a commodity or to obtain it at the time of delivery, provided that the material of manufacture and / or the cost of the work is from the manufacturer, provided that the price and how to pay it is agreed upon, whether in cash or in installments.

b-Leasing:

A contract differs from other sales contracts because it includes ownership of a benefit and not ownership of an asset.

THE SECOND TOPIC : STUDY THE ACCOUNTING POLICIES AND THE FINANCIAL POSITION FOR THE JORDAN ISLAMIC BANK

Accounting for the assets of the financing and investment transactions of Islamic banks is very important, as the financial statements are relied on in this, in order to provide financial disclosure and transparency that Islamic banks promote in front of their customers, and to give a clear picture of everything related to their financing and investment

FIRST REQUIREMENT: STUDY THE ACCOUNTING POLICIES FOR THE JORDAN ISLAMIC BANK

Firstly: Accounting policies for financing and investment assets

1-Assets available for deferred sale:

The bank acquires them with the aim of selling them (bank, 2020) for a future sale (in installments). Assets available for future sale are recognized upon contracting at cost and are measured on the basis of cost (purchase value and any direct expenses related to the acquisition

2- The International Financial Reporting Standard for Lease Contracts:

International Financial Reporting (bank, 2020)No. 16 was applied on January 1, 2019 using the practical transition method. Consequently, the opening balances were not modified and the consolidated financial statements for the previous year were not modified, as the right to use the assets on all lease contracts was calculated from The date on which the standard was applied, so the practical transition method was used that allows the standard to be applied only to contracts that were previously identified as leases on the date of application, and exemptions related to the recognition of lease contracts of 12 months or less, which do not contain an option The purchase of short-term lease contracts and lease contracts in which the leased asset has a low value and low-value assets, as well as the application of IFRS 16 in accordance with the instructions of the Central Bank of Jordan, and the Islamic Financial Accounting Standard No. 32 lease contracts was issued on December 31, 2019 and is enforceable.

3- Financial assets at fair value through income statement:

The bank buys them for the purpose of selling them in the near future (bank, 2020) and to achieve profits from short-term market price fluctuations or the trading profit margin, and these assets are also recorded at fair value upon purchase (acquisition expenses are charged to the consolidated income statement upon purchase) It is

subsequently re-evaluated at fair value, and the change in fair value appears in the consolidated income statement, including the change in fair value resulting from the differences in the translation of non-monetary assets' items in foreign currencies, and in the event of selling these assets or part of them, the resulting profits or losses are taken in the statement Consolidated income Profits distributed or realized are taken in the consolidated statement of income.

4-Financial assets at fair value through equity of joint investment account holders:

Represented in the ownership instruments financed from joint investment accounts (bank, 2020) with the purpose of maintaining them for the long term. These assets are also recognized upon purchase at fair value plus acquisition expenses, and are subsequently reassessed at fair value, and the change in value appears. The fair value is included in the fair value reserve within the equity of the joint investment account holders, but in the event that these assets or part of them are sold or their value decreases, the resulting profits or losses shall be recorded in the consolidated income statement, including the amounts previously recorded in the equity of investment account holders. The impairment loss previously recorded in the consolidated income statement may also be recovered if it becomes objectively evident that the increase in the fair value occurred in a subsequent period to record the impairment losses through the fair value reserve shown in the joint investment accounts.

5- Financial assets at amortized cost:

Invest on the basis (bank, 2020) of contractual revenue provided that these assets have not been acquired for the purpose of trading, or recorded at fair value through the consolidated statement of income, and the cash flows related to them are either in the form of payments (fixed or variable) from the original These assets and their profits, as well as these assets are recorded upon purchase at cost plus acquisition expenses, at the end of each financial period these assets are measured using the effective profit rate method, and all profits or losses resulting from the amortization process are recorded in the consolidated income statement.

6- Assets that have devolved from the bank's ownership in settlement of owed debts:

Devolved to the bank to pay debts and obligations on dealers (bank, 2020), and there is no intention to keep them for the purpose of obtaining periodic income or for the purpose of anticipating an increase in their future value. Its ownership of the bank in settlement of debts owed to the value of the bank or its fair value is less, and it is reassessed at the date of the financial statements at fair value, and any decrease in its value is subtracted from the income statement, taking into account the ownership of the funds invested in these assets, and the value of the increase in its value is not recorded as income, but rather The subsequent increase is recorded to the extent that it does not

exceed the previously proven impairment value, taking into account the ownership of the funds invested in these assets.

SECOND REQUIREMENT: STUDY THE FINANCIAL POSITION FOR THE JORDANIEN ISLAMIC BANK

Firstly: Total assets

In 2019, the total assets amounted to about 4970 million dinars, compared to about 4,618 million dinars at the end of 2018, and the details of that are as follows:

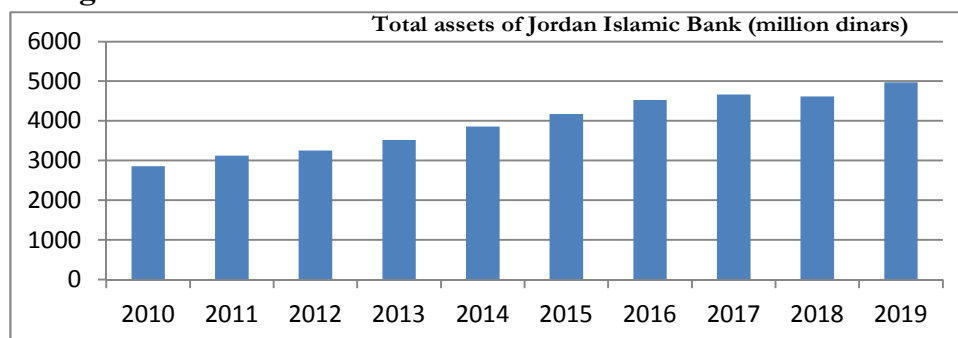
Table No. 01: Total assets of Jordan Islamic Bank (million dinars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total	2858	3127	3256	3522	3855	4170	4530	4666	4618	4970

The source: Prepared by the researchers based on the bank's annual reports on the website <https://www.jordanislamicbank.com/> Accessed Date: 01/04/2021

The bank witnessed a slight increase in the amounts of its assets, as it started in a year at a value of 2858 million Jordanian dinars, then increased to the value of 3127 million Jordanian dinars in the following year, and the increase remains as shown in the figure below until the year 2019, and the increase appears significantly In the following form.

Figure 01: Evolution of the total assets of Jordan Islamic Bank (million dinars)



The source: Prepared by the researchers based on the data of the above table

The reason for the continuous increase in the total assets of the Jordanian Islamic Bank is due to its ability to maintain leadership in the Islamic banking sector in Jordan, especially as it has won many special awards in this regard, perhaps the most prominent of which is an award from Global Finance Magazine - New York as the best institution. Islamic Finance in Jordan for the year 2019

Secondly: accumulating savings:

The total balances of saving coffers at the end of 2019 amounted to about 4,395 million dinars, distributed on 951,000 working accounts, compared to about 4,086 million dinars at the end of 2018, distributed among 942,000 working accounts.

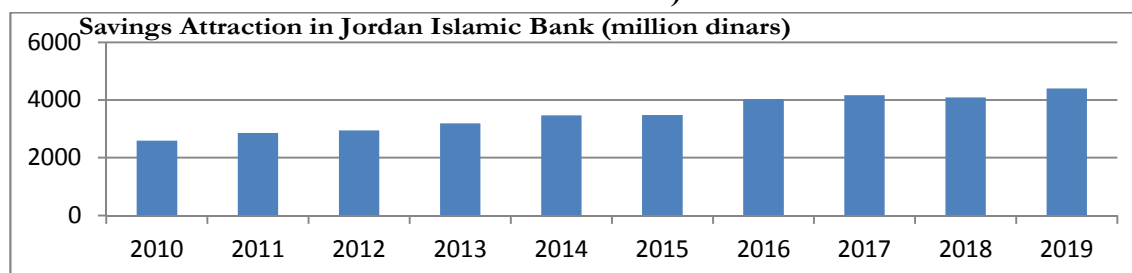
Table No. 02: Total savings attraction in Jordan Islamic Bank (million dinars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total	2593	2858	3190	3522	3471	3476	4038	4163	4086	4395

The source: Prepared by the researchers based on the bank's annual reports on the website <https://www.jordanislamicbank.com/> Accessed Date: 01/04/2021

The table notes the bank's ability to mobilize financial savings from various segments of Jordanian society, and this is increasing throughout the study period, so that the volume of savings in the year 2010 amounted to 2593 million Jordanian dinars, to increase after that, specifically in the year 2011, to the value of 2858 Jordanian dinars. And the increase in attracting financial savings continues until the year 2019, and is more evident in the following figure.

Figure 02: The Evolution of Savings Attraction in Jordan Islamic Bank (million dinars)



The source: Prepared by the researchers based on the data of the above table

The reason for the continuous increase in the collection of savings by the Jordanian Islamic Bank is due to the success of its policies, which include the distribution of prizes to the holders of saving accounts with a total value of about 145 thousand dinars per year to cover the costs of Hajj and Umrah from the year 1997 to the present day. On the launch of more services provided through the Mobile Banking application, such as secure entry by fingerprint and facial recognition system, reservation of the role in the branch and other value-added services provided to customers to renew the accreditation certificate for the security and protection of card industry data, in addition to updating, installing and operating new exchange devices During the year 2019, the bank's network of automated teller machines (ATMs) became composed of 256 devices (about 13.5% of the number of ATMs operating in the Kingdom). JONET, which consists of about 1900

automatic teller machines, and through it with the global Visa network outside Jordan, all these features made there a great demand for savers To the bank.

Third: Finance and Investment:

The total financing and investment balances at the end of 2019 amounted to about 3817 million dinars, distributed on 222.9 thousand transactions compared to about 3551 million dinars at the end of 2018, distributed on 222.8 thousand transactions.

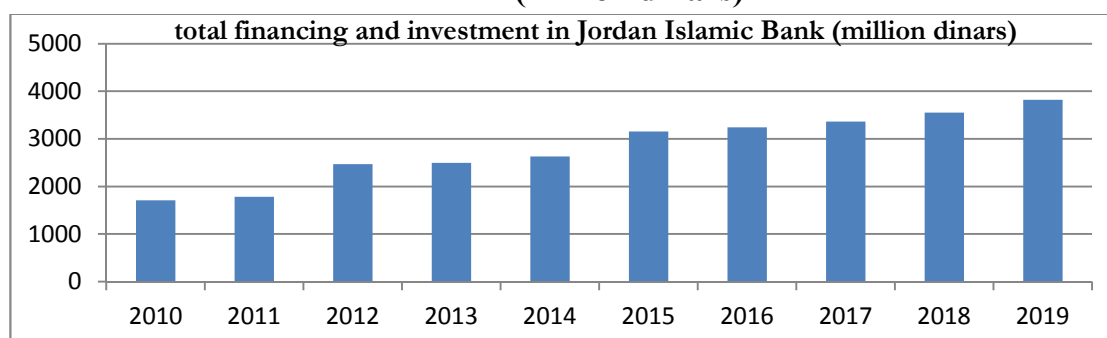
Table No. 03: Total financing and investment in Jordan Islamic Bank (million dinars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total	1710	1784	2468	2495	2630	3153	3243	3363	3551	3817

The source: Prepared by the researchers based on the bank's annual reports on the website <https://www.jordanislamicbank.com/> Accessed Date: 01/04/2021

It is noticed through the table that the total financing granted by the Jordan Islamic Bank and the investments made are increasing continuously, but slowly, as the value initially reached 1710 million Jordanian dinars in 2010, and then increased slightly in the following year 2011 and the value was estimated at 1784 million Jordanian dinars And it continues to rise until the last year of the study, reaching an amount of 3817 million Jordanian dinars, and the increase appears significantly in the following figure.

Figure 03: Development of total financing and investment in Jordan Islamic Bank (million dinars)



The source: Prepared by the researchers based on the data of the above table

The reason for the continuous increase in the total financing and investment of the Jordanian Islamic Bank is due to its expansion policy, as the financing operations carried out by the bank in the local market during the year 2019 included various economic and social activities and facilities, and a number of health facilities benefited from these funds, such as: hospitals Clinics, pharmaceutical companies, and a number of educational facilities such as: universities, schools and educational institutes, and many industrial and

real estate projects, transportation means and services, in addition to the funds provided by the bank to the commercial sector.

Conclusion:

The accounting policies of the financing assets of the Jordanian Islamic Bank contributed to the consolidated financial statements in accordance with the laws governing the way Islamic banks operate in Jordan. In the event that there are standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions related to the terms of the financial statements, international financial reporting standards and interpretations issued about them are applied in accordance with Sharia standards, until the issuance of new Islamic standards that are in line with the standards of AAOIFI. The results of the study are summarized as follows:

- The financial statements of the subsidiaries are prepared for the same financial year as the bank, using the same accounting policies followed in the bank.
- The preparation of the consolidated financial statements is subject to the historical cost principle, with the exception of the financial assets at fair value.
- The consolidated financial statements relate to the financial statements of the Jordanian Islamic Bank, and its ability to perform its duties to the fullest is related to achieving its control and control over the financial and operational policies of its subsidiaries, as well as excluding transactions, balances, revenues and expenses between the bank and its subsidiaries.
- The results of the operations of the subsidiary companies are consolidated in the consolidated income statement from the date of their acquisition, which is the date on which the bank's control over the subsidiaries is actually transferred.

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