

Impact of Islamic Banks Controller Types on Income Statement

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Abstract

This study is one of very few studies which explained problem of misunderstanding the impact of Islamic Banks controller types on income statement data disclosure. Searcher found the possibility separating controller rules between international, local, managers, employees and Islamic supervisory board which will give different accounting data in income statement to cause unfairly evaluation. Misunderstand comes as result to different controlling factors types, different expect ways to face return default and cost, and different ways to face increasing tax which obligates to understand this impact before evaluate Islamic bank income statement results.

Key words: Islamic Banks, Income statement, controller, disclosure, finance

Introduction

Manager has choices to give the accounting data as depreciation method which give possibility to use choice in order to increase or decrease the value based on manager aims in spite of giving unfair price (Scott, Theodore and Brad, 2010). It is important to study relationship between acceptability and reconcilability with information (Benjamin, Andrew and Randall, 2011). (Maria and Kel, 2010) explained that the strong growth of international financial reporting standards is affected by environment of human resources accounting. Employees can give information and details fairly. Performance of Islamic banks is affected by environment. Islamic bank must have big capital to achieve suitable profit because it deals with direct investing which obligates different standard of (capital/assets) ratio than traditional bank (M. Kabir and abdel-hameed, 2002). Islamic rules obligate sharer in investing services to share in lose based on sharer capital sharing which affect the (assets/equities) ratios than traditional bank (Muhammed, 2009). (Essayed, 2013) tried to explain differences between Islamic banks and Traditional banks before, during and after the financial crises in 2008 by financial ratios. He found the different in liquidity, credit, risks, and profitability. Practically, there is need to understand Islamic bank control type and compared that accounting data results between theoretically studies and practically studies. Controller type impacts the income statement. It may direct costs, returns, and tax in different way than expected. Islamic banks controller type is way to find income statement strength points and weakness points of disclosure.

1.1 The problem

The search problem comes as result to find impact of Islamic Banks controller structure types on income statement. It shows the real unit of applying Islamic rules, law, managing rules and employees producing services. Weak control structure will avoid Islamic rules which make the contracts of bank services not accepted therefore its accounting data will not be accepted. It will give ignorance of cost, profit and returns.

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The problem questions are as follow:

What are the Impact of Islamic banks controller structure types on income statement -

What are the affection factors on controller structure types in the Islamic bank?

What are the expect ways to face return default and costs in Islamic bank?

What are the expect ways to face increasing tax in Islamic bank?

1.2 The objectives: the aims of the search are as follow:

To find the Impact of Islamic banks controller structure types on income statement

To find the affection factors on controller structure types in Islamic bank.

To find the expect ways to face return default and costs in Islamic bank.

To find the expect ways to face increasing tax in Islamic bank.

1.3 The Importance

It explains reason of financial statement's disclosure problem because of misunderstand the controller types affection on accounting data size, place, and time of documented based on fast changing in finance and investing. It helps financial analyst, local controllers and international controller as result to explaining the controller structure types and its affection on income statement. It proves that affection will give different evaluation from Islamic bank to other based on the different types of controlling structure.

1.4 Literature Review

There are studies search the control affection on accounting investigating. Some searcher tried to solve disclosure by evaluating assets, financing, cost and return by reevaluation to solve problem of market price changing as (Pierre, 2013) other searches concentrated on controlling operation as (Winson, 2014) on other hand there was studies concentrated on Islamic operations in Islamic banks and discussed problem of misunderstanding operations Islamic rules because it will give different accounting data (Muhannad and Jamal, 2012). There were studies discussed the international rules affection on accounting and found that Basel rules not suitable to control Islamic banks operations as (Mabed, 2003). (Read and Abdullah, 2016) explained the affection type of relationship between Supervisory Board, internal auditor, and External auditor on accounting fairly.

2. Factors of Controls types in Islamic Banks

Accounting data has problem of change "Accounting data standards can change from year to year. There are no limit standards ruling government companies, international companies and local companies" (IFAC, 2010:388). Islamic banks have the affection of that rules on its financial statements items types, items mix, Items size, and items time documented. Islamic bank has different cases based on that controls types. It may impact by local rules and its managing rules but other will affected by international, local and managing rules on other hand there is no one control model for all Islamic banks because of different control rules from bank to other. See next table:

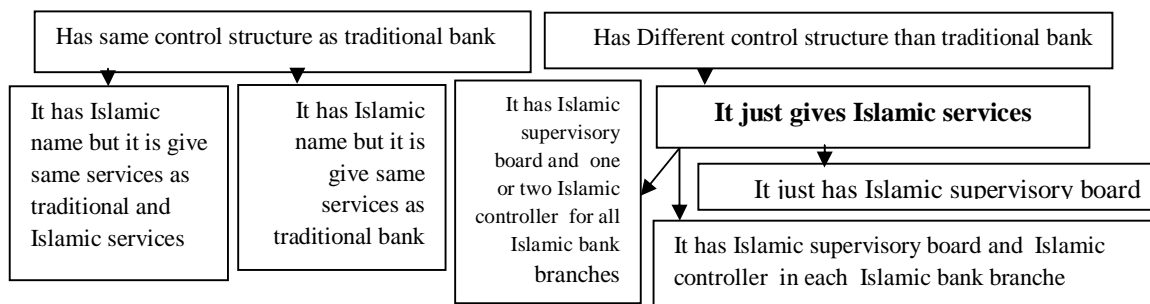
Table 1: Factors of Controls types in Islamic Banks

Control type by International rules: its aims to accept Islamic finance and investing in international environment	Control type by Local rules: its aims to accept Islamic finance and investing in local environment	Control type by Bank managing rules: its aims to accept Islamic finance and investing in internal environment within the Islamic bank
International Monetary Fund: which direct countries economic	Association of banks which unit the welfare of local banks. It applied rules to avoid conflicted between local bank	Head Managers rules: show strategy and size of credit, financial structure and investing structure based on the bank aims and environment risks
International credit rating companies: which classified bank credit risk	Local Economic system: which direct local economic based on its local tools	Branches manager rules: apply the head managers rule practically and carrying out work directly with customers
International Financial Reporting standards (IFRS): which direct financial statements forms	Local Association of Islamic Jurists: local Jurists agree the condition of Islamic bank rules to be accepted by Islamic rules	Islamic Supervisory Board: shows the Islamic bank services rules to be accepted by Islamic rules and give report of applying Islamic rules.
Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI): which show account data size, place, and time of documented	Local Ministry of Endowments: which give rules for Islamic services	Internal Auditor: shows the ways and policy of accounting and make financial statements
Laws of Basel: which direct bank financial risk and investing risk	Local courts: which show the duties and rights by legal courts	External auditor controlling: shows the disclosure and correct contracts dealing by bank services
International Countries Law: which show rights and duties based on its law	Association of external auditors: which gives local accounting auditors license to accept bank financial statements	Employees: whom deal directly with customers
International economic system: which show economic tools to direct economic	Taxes Law	Strategy and aims which direct services and developing
International Association of Islamic Jurists: It is called Majmah Islamic Fiqh: which discuss developing of Islamic bank services Islamic conditions for accepted.	Islamic banks specialized law which show difference between traditional bank and Islamic bank license	Managing units and its budgets which examine and direct success of strategy and aims also managing risk by restructure managing also restructure investing and financing tools
	Local Center bank: which control all banks in the country	

Recourse: done by searchers

Islamic bank type is impacted by affected of controlling by international rules, local rules and managing rules. Deference affection will give difference control structure. See next figure:

Figure1: Islamic Bank controller structure



Recourse: done by searchers

Islamic bank controller structure shows the best case of Islamic bank controlling based on services Islamic rules law and services Islamic rules applying practically by managers and employees. This case is to have Islamic supervisory board and Islamic controller in each Islamic bank branches.

It will be sure of correct accounting data by Islamic rules whether in size, place and time. Islamic bank controller structure has limits to give correct answer about the services. It can not give 100% correcting answer but it gives general answer which it is less than 100% there for financial statements is not correctly 100%.

Controlling types in banks has different disclosure because of different investigating degree and there is gaps of possibility understand Islamic rules practically by managers and employees. There is changing of financial items and investing items every time. There is possibility to restructure it as result to managing risk. There is a problem of fast reaction documented for every service. There is possibility of tricky. Islamic banks give real goods to customers as sellers. Accounting must show the disclosure of cost and return of services in Islamic banks. It can be sold directly from bank stores or by indirectly way from its selling companies or factors as owning these companies or own some of its capital shares.

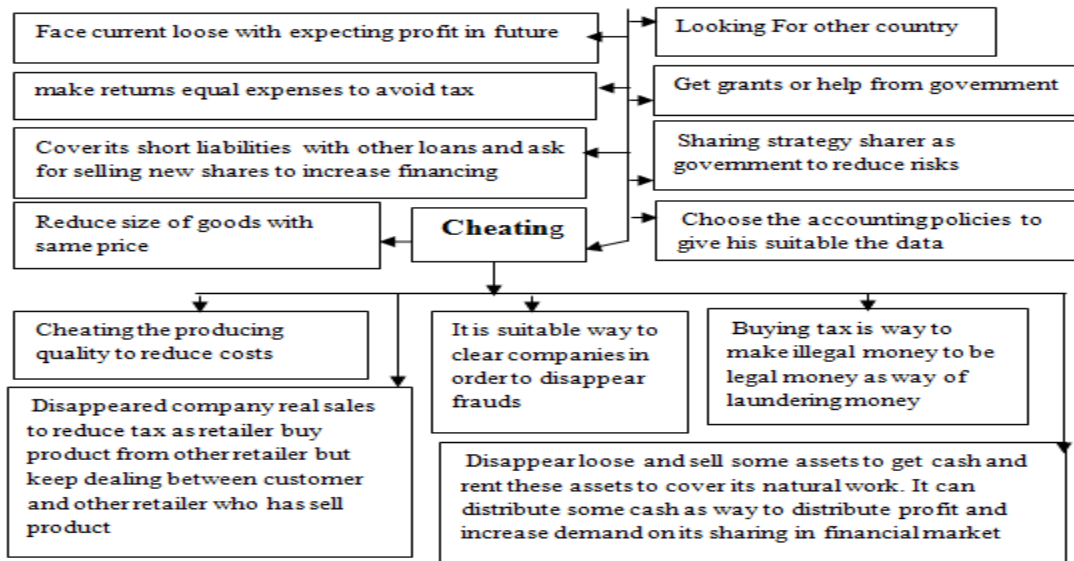
3. Expect ways to face return default and increasing costs in Islamic Banks

Services of selling by credit are the almost investing services in Islamic banks. Its assets include at least 90% of Morabahah installments. It may face default by customer. The controller of this service has conditions to protect bank returns. It will ask the customer to give suitable grantee and make the installment not fixed to be increased in case of customer possibility default. Islamic supervisory board just accept the fixed return after show al costs to customer and the fixed profit also grantee must has Islamic rules condition to be accepted. Some banks ask customer to buy insurance against default possibility. This can not be done when there is separate between Islamic rules and managing rules. When profit becomes not fixed and applying insurance there will be customer ignorance of costs and profit buying because of possibility increasing when customer credit classification is reduced by time. Weakness of controlling structure will cause separate between Islamic supervisory board and producing services in the bank. Managers can use ways to avoid costs, for example: the bank obligates customer to find the seller of product and get check of the cost from the bank to buy the products from the sellers. This way avoids cost of store goods and transport also avoids the cost of goods damage risk because customer buys directly from sellers. There is no need to own company in this case. Managing will reduce cost of bank agents because customer does all operation steps. In this case Islamic rule: "of owning goods before selling" is costly and bank managing avoids it to increase its return in spite of its condition to success Islamic selling services.

4. Expect ways to face increasing tax in Islamic bank

Case of tax problem in Islamic bank or its selling companies or its factors which lead to possibility cheat to face income tax or sales tax increasing which reduce profit. Jordan as tax country apply high tax on bank income between 35%- 40% and apply tax on buying sales reached to 16% also there is customs tax. Controlling types in banks has different disclosure because of different investigating degree. Doubt rule in accounting to investigating cheating possibility. Searcher shows possibility ways to face problem of increasing tax in Jordan as in the next figure:

Figure 2: Expected ways of facing increasing tax



Recourse: done by searcher

Conclusion and Recommendation

Searcher found that the impact of Islamic Banks controller structure type. Because of possibility separating rules between international, local, managers employee and Islamic supervisory board it will give different accounting data in income statement which cause unfairly evaluation for local controller, international controller and finance analyst because of possibility misunderstanding directing the accounting data types, mix, size, and time documented. Impacts of Islamic Banks controller structure type will give misunderstand of return defaults, costs, tax. Searcher recommended to study impact of Islamic Banks controller structure type before evaluate income statement in order to find the ways applied to face control factors, return default, costs, and tax.

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