

The role of Islamic accounting in the development of Islamic banks

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Abstract

The Islamic banks are characterized by multi-functional banks, which play the role of commercial and specialized banks and do not deal in credit. They do not borrow without interest, lend interest-free and do not benefit. They provide financing according to legitimate terms such as speculation, participation, profitability and other means of investment.

The research aims to identify the nature of the work of Islamic banks and the mechanisms used to invest in them and to indicate the role of these banks in financial intermediation as one of the modern forms of investment in banks. The hypothesis of the research that "Islamic banks have seen an increase in their work as a financial intermediary, thus winning the status of real competition for traditional banks.

Keywords (Islamic banks, Islamic accounting, Jordan Islamic bank, profitability, financial,

INTRODUCTION:

In the early of 1960, the first experience of Islamic banks in Egypt appeared in 1963, under the supervision of Dr. Ahmed El Najar.

The widespread of this experience was witnessed during the mid of 1970s and the dream of many dealers of many dealers become true who suffer dealing with the usury banks, the Islamic banks start working within their own framework that meets the desire of these dealers, this experience could achieve success through its great capability to mobilize the financial resources, these bank worked on replacing the interest rate of the creditor and debtor with the reward system for the owner of the money, by using fund formulas based on partnership principle, and because the two systems difference as to effort and capital reward (Work), this situation necessarily would lead to the need to examine the accounting aspects of this alternative system.

To discuss the problem, the following question should be answered:

What are the funding formulas that are based to participation mechanism as an alternative for interests mechanism applied at the Islamic banks?

What are the intellectual resources to prepare accounting curricula for Islamic banks?

To deal with the Islamic banks accounting, we should introduce some identifications and concepts to enable the reader realize the content of this paper through the following points:

First: the Islamic banks and their financing formulas.

Second: Accounting in the Islamic banks.

Third: studying the statues of Jordan Islamic bank.

FIRST: THE ISLAMIC BANKS AND THEIR FINANCING FORMULAS.

What are the Islamic banks?

There are several identifications for the Islamic banks, following we mention two of them for example: Jamal al Alghareib identified them as "any institution that starts its bank business with the commitment to avoid the usury interests for being forbidden in sharia (the Islamic law).

Moreover, it is identified as being "financial institution that works on attracting monetary or cash resources from the community individuals and employing these amounts of money effectively to ensure maximizing them and their growth within the frame of the stable rules of the Islamic sharia (Islamic law)".

From these two identifications, we find that the Islamic banks in their dealings exclude the method of interest of creditor and debtor, substitute it with the reward for money owner. This is known in the Islamic jurisprudence (Fiqh) as being the principle of (Alghanam by gharm) which means that creditor does not deserve reward but in the amount that the partner (debtor) could gain through the funding process.

GOALS OF ISLAMIC BANKS

The development goal

Islamic banks contribute to achieve the economic social development as they aligned with the legal controls, and find.

Alternative for all transactions to avoid embarrassment from about their dealers through the following areas:

- Cancelling the interest and reduce the costs of projects, this leads to encourage the investment for the artisans category.
 - 1-Nassr Aldein Alkawla Mohammad: Islamic banks, science publishing house, first edition (1405-1985) P 24.
 - 2-Muhsin Ahmed Alkhdhir: Islamic banks, for publishing and distribution, second floor (1416-1995) P: 17.Consequently, create new opportunities and therefore, widen the base of workers, the elimination of unemployment, then the national income increases.
- Develop the saving awareness, encourage investment, find opportunities, several forms of investment which are appropriate with the capacity and needs of individuals and various corporations.
- Working on preserving money inside home, so the dependence on resources and self-potentials to be employed inside Islamic countries.

Objective of investment:

The Islamic banks work on encouraging the investment processes through polarization the capitals, employ them in the economic domains accounting to the Islamic fund formulas achieve economic advance and provide services economic consultations and financial advice to preserve and grow funds.

Objective of the Social:

Islamic banks work on budget between achieving the economic profit and achieving the social profitability, by gathering between the general goals of any project, and achieving the social through:

- Auditing the employment domains funded by the bank, ensure their integrity and ability to repay funding.
- Employment should produce a domain to upgrade labor level while its return allows provide social services for the community members.

CHARACTERISTIC OF ISLAMIC BANKS:

Not to deal with interest

Not to deal with the usury interest giving or taking is the most important feature of the Islamic bank business, because Islamic prohibited usury, moreover Allah declares war but on usury in Quran who the almighty God says: O you who have believed, fear Allah and give up with what remains [due to you] of interest, if you should be believers, (278) and if you do not, then be informed of a war [against you] from Allah and his messenger. But if you repent, you may have your principal – [thus] you do no wrong, nor are you wronged. Sourat Albaqarah: verses 278-279.

The interest system represents the value of usury of the lender to the borrower in which he forces the borrower to return the lender's capital plus the interest whatever the investor status is.

Investment in halal projects:

The Islamic banks seek investment in projects that achieve benefit for the community through using participation method in funding developmental projects that depend on cooperation between the money owner and the fund applicant in both profit and loss.

This makes this system distinguished from the traditional system, which seeks to achieve the highest price for interest regardless the nature of the projects employed and whether they there have advantages or disadvantages for man.

Linking Economic development with social development the Islamic banks connect between economic and social development they consider the latter the foundation that we couldn't attain the economic development without considering it, therefore, it covers two aspects and does not do what traditional banks, that focus on projects with big profits regardless any respect to social development.

FUNDING FORMULAS USED IN ISLAMIC BANK:

To fund projects, the Islamic banks use several funding formulas, such as property based to venture, participation, farming irrigation where they give the dealer the ability to conduct and act, and take the over character, others are based to indebtedness such as profiting, peace, rent, manufacturing which form debt for the dealer who doesn't own methods provided funding.

Funding By Participation

Funding by participation is considered the most important feature of the Islamic bank from the traditional ones, "it provides the banks and the dealer with, equal or uneven proportions to establish neat project or contribute in a contracted in a constructed project where every one of both becomes an owner of a share in the capital as being consist ant, reduced or deserve his fortune from profits, the loss is divided according to each partners share in the capital"

Using this formula, the contribution with money is done, the work between the two parties and through it, the ext funds are collected for individuals to invest them in new projects or expand established projects the participation takes three forms.

Fixed participation.

Participation on the base of certain bargain.

Participation terminated by ownership.

Funding by venture

Venture is identified as being company in money profit from one side which is the side of the side of the money owner even if it is multiple, and the work side which is venture side.

The venture method is achieved by the partnership of two parties one these two patties pays the money where the work on the other that is working on integrating between two productive inputs, the capital and work to establish economic project.

Funding by farming

Property identified it as "company in planting"

This formula stands on the foundation of implantation contact link with some of its production, that is, the owner of the land given the land for the individual who farms it and take care of it, this formula didn't apply but by some Sudanese banks, this retunes to the great importance attained by farming sector which represent the main income resource for more than 75% on the population.

Funding by procedure

Procedure is identified as "a contract of plant provision growth to some amount, not of non- profit, not by word of sale or rent made".

Its image is to make contract between two persons, one who owns the trees and seeks someone to grow them, the other has the effort to do this on the base of dividing or distributing the resulting between them according to this agreement.

Accounting and revision body, accounting and revision standards and controls of the Islamic financial corporation's (1421 AH-2000 AD),P: 234.

Shawqi Islamic shahatah: Islamic banks, modercairo for printing first edition, 1977, P:29.

Wahbahalzeilli, Islamic fiqh and its evidence part 5. Thought house for printing, publishing and distribution, Damascus, second edition, (1405 AH, 1985 AD) page: 613.

FUNDING FORMULAS BASED ON THE INDEBTEDNESS

Funding by profitability (profitability)

Sailing by profitability (Murabaha) as selling by the purchased price or its cost on the purchaser with a profit in cease known usually as the percentage of purchase price cost.

The profitability is widely used by the Islamic banks or according to published statistics of the international union of Islamic banks in 1996 by approximately 166 bank or Islamic financial institution found to apply the profitability by the average of 40% of the total funds provided, when ease the use of venture does not exceed the percentage 8% for the importance profitability plays in development, also it is one of the short-term formulas of guaranteed profit other than other formulas.

Funding by financial leasing

This means "that someone rents something that he couldn't gain it, or he doesn't want this for certain reasons, this may be for certain wage provided to the things owner".

Renting wears great importance especially with what it provide of continuous liquidity through payback of rent installments, it is considered as a guaranteed method of cash flows for Islamic banks it also contribute to economic development through assisting small and middle agencies to own modern equipments they could not purchase.

Immediate fund (Bilsilm)

It is called immediate sale with present price of the delayed good, when the seller attains the goods price from the purchaser, the agree to deliver the goods later.

The Islamic or immediate formula used in funding the agricultural sector through assisting peasants during the pre-period of production completion furthermore, Islamic can be used in funding the external to promote the outcome of exports to cover the balance of payments deficit.

Funding by manufacturing (Islamic)

I stisnaa is a sale contract of the manufacturer purchase claimer and manufacturer (saler) when he manufactures a described commodity (manufactured) and attain it on the delivering time, on the condition that the manufacturing material and work cost on the account of the manufacturer in return of a price agreed upon and how to payback. The importance of this formula in the bank funding for industrial projects is included in operating the production power of the unemployed industrial dealers of the bank.

SECOND: ACCOUNTING IN ISLAMIC BANKS

1- The core of accounting in the Islamic banks.

1-1 the concept of accounting in the Islamic banks

It is known as applying the concept and principle of accounting in Islamic in the various activities domain the Islamic bank conducts, with the purpose of providing information, guidelines and direction that assist in expressing the opinion.

Making decisions that assist in achieving and auditing the aims of Islamic banks where the application of its domain includes the financial processes as well as working on achieving, auditing and recording the processes in a way that allows the others to view the records inside the construction.

1-2 the concept of accounting system in the Islamic banks

The system is identified as "a net of correlated procedures prepared according to an integrated plan to accomplish the main activity of the institution".

The accounting system is identified as "a general framework consisted of a group of correlated elements (documented courses, notebooks, records accounts guide, lists and financial reports) that work together according to the foundations of the Islamic banks accountancy, using a group of methods and approaches to produce accounting information that assist to achieve various purposes".

The accounting system of the Islamic banks is derived out of the rules of accounting thought, and when persons in charge design the accounting system, they should see the appropriateness of the bank activities nature, moreover its easiness in showing and interpreting information to dealers, and distinguish with its operation economy.

2. Goals of Islamic banks accounting

The Islamic banks set a group of goals and set to achieve them

2-1 Preserve and develop funds.

Bank is the responsible for safety of stakeholders and savings funds, hence the bank is obliged and choose ways of accounting registrations which forbid all sort of the or expending.

2-2 Measurement & Distribution of the total activity result of the bank:

Through the accounting capture of the bank processes, the total result of defined either profit or loss.

2-3 Explaining right & obligations:

Through this, the Islamic banks aim to identify debt and credition at any moment of time to make each party knows what is for him or upon him.

2-4 Show the fiscal statues and provide dealers with information

The banks accounting contributes in identifying the financial status during short periods in order to evaluate the bank management in operating the funds of the its clients, it also provide the co-economics with information and data through accounting records, moreover, assist the external auditing agencies (central bank, other audition bodies) with the messary information.

3- Principles of accounting of the Islamic banks

The accounting intellect is distinguished with a set of consistent stable foundations which direct the accounting work either the recording domain or the accounting processes analysis; this led to debate on the extent of appropriateness of these account ting.

Hussein Husseinshahaatah, Islamic banks accounting, 1992, P 29.

Mohammad shawqibshadi, accounting and information systems, art intellect house, cairo, 1987, P: 36.

Hassein Hussein shahatah, Islamic banks accounting, cf, P:52

Principles to Islamic banks work, the Islamic banks have two choices, first, to start from traditional accounting principles, and consider the total output of the local and international accounting organizations, the Islamic banks should consider the bases that do not transgress the Islamic sharia, and appropriate to all their activities.

The second choice is the necessity to start from the Islamic intellect and elicit the accounting rules from the resources of the Islamic sharia regardless its agreement or disagreement with the prevailing accounting rules, that is the start point of the Islamic intellect.

We sum up these accounting principles in the following:

1-3 The principle of the financial discharge

This means that the project has independent legal personality from the personality of its natural owners, the Islamic bank has independent fiscal discharge and the bank owners have rights on these assets, as a result the bank has the warrant of the natural person to acquire the right and commitment to duties.

3-2 The principle of continuity

This principle is considered the logical result of the above principle which separates the personality of the natural partners and the project personality proposing the Islamic banks would continue and the refinement is an exceptional case, based on this foundation, the preparation of the final accounts is done.

3-3 Annual principle

The bank divides the accounting processes on periodical intervals called fiscal or accounting period that is, the necessity to distribute expenditures and revenues of the bank during the accounting periods.

3-4 Registration associated with documents

It means the necessity to record the financial, economic events in the records and notebooks step by step dated by day, month and year.

The registration is conducted by using document with logical approach in the accounting processes.

3-5 Opposing Expenditures with revenues

The Islamic accounting thought considers this principle when measuring the results of works, it also considered the base of opposing between the net of the financial discharge between two consequent periods and identifying the change which represents the activity result.

The Islamic banks used this principle in a different way through using the Islamic investment formulas.

3-6 The assessment based on the current value

This principle is aiming to show the results of business, the net financial position of the project to preserve the real capital of the economic as to the strength of replacing tenders kept with and its ability to profit and expand. This principle offers the real image of the bank in a certain period by preparing the final calculations, identify the fiscal position, but Islamic banks do not apply this principle and remain on the assessment on the base of historic cost for its easiness to calculate and apply.

3-7 The principle of unification consistency

Unification is meant unifying the accounting concepts and rules to reach the correct results, ease the comparisons procedure, where consistency means meeting the same rules and concepts from time to time to achieve the same purposes referred to.

A committee of professors and economic, legal and banking experts, evaluating the accounting role of Islamic banks international institute for Islamic intellect, cairo 1 ED (1417 AH – 1996 AD) P: 68.

Hussein Hussein shahatah origins of Islamic accounting intellect, altaqwa library at naser city at alferdouse compound, (2 ED 1414 AH, 1993) P:73.

Hussein Hussein shahatah Islamic banks accounting, CF, P:49.

But the Islamic banks do not commit at all the application of this principle although the efforts to unite the concepts and the necessary terms and accounting forms.

3-8 Precaution & carefulness principle

This means considering the potential losses and expended burdens when preparing the final budget, and the recognition of revenue against losses risks in general.

3-9 The principle of disclosure and interpretation

Islamic does not recognize concealment fraud or cheating thus it approves the full disclosure of all content of the project such as assets, commitments and business results.

The accountant should explain the published data in the appropriate amount according to its capacity and condition in away the protect the interests of the dealers.

4- Accounting treatment of Islamic funding formats:

The Islamic banks identify accounts through which trace the funding processes, from registrations in daily notebook and ledger the transform there to review balance, prepare final accounts, the processes of accounting registration conducted by making special accounting processing for each step of the execution of the funding process.

It is known for as that accounting is differ according to the nature of the transaction the traditional and Islamic banks agree in the nature of activity which is the financial liaison, that is expecting the use of the same accounting banking system in traditional banks.

This is differ from the late in the nature of the formats used to fill the monetary resources and funding projects, this led to the variation of accounting processing from one Islamic bank to another according to the applied accounting system this make it difficult for both students and traders, when comparing between financial statements of these banks, we find the accounting and auditing authority with the direction of the Islamic bank for development seeks to give the accounting treatments of the Islamic funding formats until they unit on all banks level, prepare unified form for fiscal statements which should be compatible with the polices and models of the central bank third the study of Jordan Islamic bank case.

The Definition of Islamic bank of Jordan

The Islamic bank of Jordan was established in 1978 it is considered the first Islamic bank established in Jordan by the late Dr. Sami Hassan, un 2000 the private law of the bank to which the bank was working according to it was replaced by a new law that contained a special chapter for Islamic banks an their auditing issues related to them.

Today, the bank has a net comprises 60 branches, 12 banking offices, service office at the borders warehouses, in addition to work as financial broker in Amman stock exchange through sanbelalkhair company for financial investments owned by the bank. 1755 employees are working for the bank, the bank ATM machines, which are 120 sets are connected with the other ATM machines belong to the other Jordanian banks.

A committee of professor and economic, legal, and banking experts, assessment of accounting role of the Islamic banks, cf P:88

Thanaa Ali Qabani, some features of modern accounting thought the international Islamic banks union & Islamic banking, P: 98.

The accounting and auditing authority for Islamic financial institutions by the agreement of foundation on mach 27, 1991 in the state of Bahrain as an international authority with an independent moral personality that does not seek profit.

Counted 750 ATM machines, through the network Jordan national payments and the international visa network spread in the various world destinations. The total vascular reserves of the total sum of the customersdeposits in the operating banks in Jordan about 10.3%, the total of the financial and investment balances in the bank of the total of the direct financial credits of the banks operating in Jordan which are 10.9% but the total of the assets in the banks operating inside Jordan 7.3% in 31 December 2008.

Moreover, the bank conducts several banking investment, and funding services according to the Islamic sharia rules, the bank has a distinguish of businesses through which provide services and comprehensive products range between profitability (murabahah), participation and speculation or gambling lease finished by ownership, and installment sales as well as investment in real-estate through purchasing lands and real estate occupied and developed for purposes of later sale or for clients.

The bank interests a successful performance record since its establishment, the bank distributed profits on the stakeholders during the last ten years which equivalent to 180% of the capital, 129% of them free shares, 57% cash profits.

More achievements have been achieved by the bank, and continued its march achieving success after success, enforcing its position year after a year with the end of the year, the assets reached (1.4) billion J.D with development percentage of (9.7°) of the past year. The total saving credits reached (6.3) milliard J.D with the percentage of development (7.7%) from the past year. The total credits of its financial employments increased to reach (9.2) milliard J.D with a development percentage of (4.3%) from the past year, while the rights of the shareholders reached approximately (343) million dinars (J:D), the revenues of participant investment reached about (198) million Jordan Dinars, and the profits before tax about (84) million Jordan dinars, and the profits after tax about (54) million Dinars, with an average revenue after tax on the means of shareholders right of about (52.16%) although with what the international and the surrounding region witness

of crises and their negative effects on the national economy, the Aldarah council of the general Authority in its normal meeting recommends distribution of the cash on the stakeholders with the percentage of 15% of its played capital, it also recommended the abnormal public authority to distribute free shares for (20%) percentage from the played capital with capitalization a part of the circler profits to increase the bank capital from (150) million Dinars/ share to (180) million diner/ share.

Forms of the Applied Funding in the bank

The bank funds exploitation projects and investment projects using a set of funding formats, and to study the development of these formats we prepare the following table.

Form	2008	2009	2011	2011	2012	2013	2014	2015	2016	Total
Short- term profitability	203	409	795	1163	1092	1345	1044	6406		
Ladd lease	06	04 39	67 90	50 319	713 472	2624 520	5528 924	432 982	527 20	9945 3372
profitability Middle term	–	–	–	–	37	31	09	–	1726	1803
Istisna / Forming	–	–	–	–	–	–	–	03	54	57
Total	209	452	952	1532	2314	4520	7505	7820	7787	33128
Percentage of short – term funds to the total of funds	97%	91%	90.5%	79.18%	83.8%	87.8%	87.56%	87.44%	77.52%	
Percentage of Hong - terms to the total of funds	3 %	9 %	9.45%	20.82%	22%	12.19%	12.43%	12.55%	23.17%	

The bank used the short term profitability form and the ladder to fund exploitation projects, during which the bank purchases the raw material and commodities with profit margin about 10.32% annually, from the table we find that funding with short-term in increase with 79.40%, 96% of funding's directed towards trade sector, the follower of funding tadder development sees it is increases by 36%, both of trade sectors benefited from this form.

Industry with 74% and 25.16% consequently, it is clear that there is a negative correlation between the two form where the rise of one cause reduction in the other.

In addition, the bank uses funding forms of investment on the form of mid-term lease and profitability.

The tooling to return machines, commodities and contracting works with profitability margin reaches 08.50% annually from the table, we find that the lease formula is in increase with 57%, the benefit of industry sector is 50% of the total of findings provided in 2016, the bank also uses the middle term (profitability) besides the lees the us abandoned in 2016. To know the formula green rise because Trans forming all the credits into middle – term profitability.

Moreover, the bank use tooling to fund constructions, the service sector benefited by 56% from the total findings in 2016, through the table, we find the portion of short-ter findings size with the portion of the total findings in decrease, they reached 97% in 2008, and they become 77.52% in 2016. We interpret this reduction with the increase in the findings size provided in the middle tern and long-term, when the percentage raised from 3 % in 2008 to 23.17% in 2016, that is, the bank is attempting gradual conciliation between the size of the provided short- tern funding and middle-tern and long- tern ones, we find that the Islamic bank, and as the other Islamic banks headed to focus on the short term profits as it an approximate formula of the work mood in the traditional bank.

And as the most important resource of its short- term which leads to employ them in short-term projects.

EVALUATING THE BANKING ASPECT OF THE ISLAMIC BANK OF JORDAN

After discussing the whole brief of funding forms used by the bank, it is necessary to disuss the ways of accounting registration and knows the accounting documents used.

The use of the same accounting treatment for funding forms used in funding the exploitation projects which used in funding investments, we find that both processes conducted by an accounting registration for funding, pay back, where the formulas used to fund investments distinguished by payment back terms longer than these used in funding exploitation projects, the bank assigned an account regarding the funding of exploitation

investment projects the (202) account which represents other loans in the traditional banks, we find that the bank exploited this nomination to symbolize the sorts of provided funding, the same thing is said in relation to credit accounts which include the current, saving, investment accounts and fund statements, these accounts took the same numbers of the accounts for the traditional or for the Islamic bank, this is due to bind the banks with the banking accounting scheme, which through it defined the numbers of accounts that should be obliged to by the commercial banks.

The accounting registration is done by following the 3 stages of the accounting course, registration is listed in the journal, which is considered a mandatory accounting document for agencies, then these processes transform to the central journal of the accounting and budget to open the ledger for each account, then tracing the movement of accounts through preparing the auditing budget which is considered a necessary method to make sure of accounts correctness, recording them and realize the credit entail outstanding and debit accounts.

The financial statements prepared by the bank are considered advanced models from the central bank part, these models do not appreciate the foundations of Islamic banking work, this made the responsible adjust there as the bank force then to provide the same models.

Four: General Results Of, Recommendation And Suggestion Of The Study

General results of the study:

The study concludes the following results

The funding formulas are considered on the base of credit entail formulas of specified revenue, but these on the base on the ownership of varita revenue.

Islamic bank define the competitive profit margin in comparison with traditional banks as to the prices of interest and discount average.

Accounting treatment of funding formulas differ according to the applied accounting system from one country to another.

Jordan Islamic bank regulates the accounting treatments used according a formula.

We do not difference between the accounting system used in the Islamic bank and the one applied in the traditional banks in the shape despite the difference in content.

There is no accounting criteria rule the used formulas in funding the projects.

RECOMMENDATIONS AND PROPOSALS

In light of this study, it is possible to suggest the following recommendations.

The central bank should change its policy related to Islamic banks, work on emplace a policy that copes with their distinguished nature.

The necessity to work according to the regulations of accounting and auditing authority relation to Islamic banks corporations.

Work on unifying the accounting treatments of the funding formulas among Islamic banks.

Work on applying the foundations of costs accounting to enable the bank to measure real costs of activities and divide their activities.

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