ABSTRACT
Evaluating the Application of Disclosure and Accounting processing standards of Tawarruq in Islamic Banks
(Case Studies on Islamic Banks in Kingdom of Bahrain)
Done by: Hamad Mubarak Ali Al Jowder
Supervised by: Dr. Fouad Al Maliji

ABSTRACT

The importance of tawarruq funding as an Islamic financial tool, and its impact on the Islamic banking industry in Bahrain has not received adequate attention by the concerned authorities. Many Islamic banks in Bahrain adopt the style of consolidation accounting treatment within a different concept due to the lack of a special Islamic accounting standard for tawarruq, although there is a legitimate standard for tawarruq.

The present study aims to identify the criteria used by Islamic banks for the implementation of tawarruq accounting treatment applications, and to demonstrate their commitment to implement the first Islamic accounting Standard for presentation and disclosure of tawarruq in their financial statements.

The significance of this study highlight the importance of tawarruq, and its exact size compared to other financings, and to identify the accounting standards used to find out ways of accounting for the tawarruq operations. Disclosure of tawarruq in a separate item, ensures the financial statements users the transparency and clarity of information provided to them. Therefore, the researcher chose the applied study of Islamic banks in Bahrain to finance tawarruq to reach the results of the following assumptions:

• the first assumption: tawarruq represents the largest proportion of funding compared to other tools.
• The second assumption: Tawarruq should be disclosed in a separate paragraph within the financial statements.
• The third assumption: Tawarruq accounting treatment in isolation from other Islamic financing instruments.
• the fourth assumption: Disclosure requires issuance of a special accounting standard for tawarruq, because of tawarruq existance legal standard.
In order to validate these hypotheses, the researcher has visited these banks to view the implementation mechanisms of tawarruq funding formulas and procedures used, and methods of disclosure in their financial lists and accounting treatment applied to the tawarruq in these banks. The study leads to the following results:

• Tawarruq represents the largest proportion of funding compared to other Islamic banks funding. The researcher wasn't able to measure the percentage of funding compared to other funding at the level of those banks, because most do not disclose the financing of tawarruq in their financial statements except Bahrain Islamic Bank, that enables the researcher to reach the size of tawarruq which is 37% of the bank other funds total in 2011 according to Table (7), and through the Bank disclosure for tawarruq under the details of Murabaha item in Table (6).

• Tawarruq is not disclosed in a separate paragraph in the financial statements and most of the banks do not comply with disclosure about tawarruq in its financial statements, except Bahrain Islamic Bank who is the only bank that discloses tawarruq under the notes of morabaha item Table (6).

• The tawarruq accounting treatment is performed within accounting treatments for other financing tools (Murabaha) and not in isolation from other tools.

• There is no islamic accounting standard for tawarruq that regulates the accounting treatment for tawarruq operations, therefore; a special standard for tawarruq must be issued.