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FINANCIAL ANALYST WORK PAPERS UP TO COMPARING OF POSSIBILITY DERIVATIVES AFFECTION IN ISLAMIC COMPANIES AND TRADITIONAL COMPANIES

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ABSTRACT

This search investigated differences between affection of using derivatives in Islamic companies and Traditional companies. It found that Islamic companies are forbidden to use derivative as subcontract but it is affected by loosing of cancel derivatives dealing when it owns traditional companies in order to change its financial structure and its investing structure to follow Islamic rules beside it is affected by false demand and false supply which cause by big size of derivative dealing. False demand and supply will affect on store value and sales price. Traditional companies dealing with derivatives to reduce loose or transfer loose or speculate to make unusual return. The deference causes need to get notes and explanation by financial table to show accounting item size before use derivative also the size after deal with derivative and after executive time to understand its aims. Differences cause need table of success factors of using derivatives to evaluate the derivative value, success way of managing derivatives contracts before executive time and added value. Deference cause needing to use deferent financial ratios and deferent financial analysis depend on applying Islamic rules. Searcher recommended applying the tables' number 1-8 in order to help analysis income statement and balance sheet. It can be organized to be suitable work papers to give fairly financial report and show the real deference of accounting procedures for international accounting standards.

Key words: *Derivatives, Accounting, Financial Analysis, Islamic Bank, and Risk.*

1. Introduction

Derivative is contract depending on promising to make dealing in future between dealers. It is subcontract related first delay contract (essential contract). Derivatives are way of managing risk. It is useful to transfer expect loss or reduce expect loss. Derivatives can Increase assets or reduce liabilities. Every Item has its possible risk in financial tables and derivatives can be used to manage its risk.

Derivatives account can be affected on assets value because executive time price show its historical cost while its market value price is not fixed because of economic factors changes. Financial disclosure has forms which may be applied locally or internationally and be change as result to changing accounting standards. These forms will affect on company financial report and may show different accounting data (Richard, Myrite and Jack, 2011). Derivatives cause problem as result to different using and changing. It need standard for every step of using to under stand its affection on value (Abdul Naser, Suleiman, Abdul Star and Mahmmod, 2013) on other hand accounting principle does not confirm the derivatives because its affection is not happen and built on expectation. Principle accounting data of any item in any financial table is not show managing risk by using derivatives. This will not give fair evaluation for company and obligate company to give details as disclosure to analysis its financial situation up to strength points and weakness point.

1.1 The problem: The accounting data of derivatives complex (Tomasz and Marek, 2002) it is necessary to make adjustments to accounts at the end of an accounting period in order to achieve a true and fair position of financial affairs of the business (R.S and J.W, 1994) on other there is need to analysis derivatives value in balance sheet items and Income statement Items up to comparing between Islamic companies and Traditional companies. The problem questions are:

1- Is there deferent between traditional companies' derivatives and Islamic companies' derivatives which affect on using derivatives evaluation?
2- what are the factors that cause success of using derivatives in financing, investing, and income statement?
3- Is there possible to find derivative financial table?

1.2 The Importance: this study is important as result of find way to analysis financial tables. It give idea to study derivatives affection on accounting data of each item in the financial tables in practically way. It helps financial analyst to give suitable report for current case of company and its future case. It helps to control managing risk.

1.3 The Objectives: the aims of the study are as follow:

1-To Comparing between Traditional companies' derivatives and Islamic companies' derivatives in order to find derivative using value?
2-To find factors which success using derivatives in financing, investing, and income statement.
3- To find derivatives financial table.

1.4 Literature Review: Pierre (2013) suggested model of recalculates certain financial statement figures to what it could have been. He aims to make comparing between current statements and expect statement in future. (Elsayed, 2013) found the different between Islamic banks and Traditional bank. It is deferent in liquidity, credit, risks, profitability and solvency therefore affection of crises becomes different. (Eric and Lorin,2000) studied problems which facing the financial services industry as mortgage and insurance to document essential contract which increase credit classification of its derivatives. It adds cost beside brokerage commission. They use complex ways as result to fast deal in internet and phone therefore they will change market structure over time. This limits mortgage and insurance documentary affection.

2. Comparing between derivatives in Traditional companies and Islamic companies
Comparing is important to find different factors of success using derivative and to find different controlling which show different evaluating. Derivatives in Traditional companies come as result to contract on delay goods, shares, currencies and delay interest percentage for getting loan (Tariqullah, 1999). Islamic banks do no deal with delay currencies contracts and not deal with interest of loans also sharing with capital must be given in currently time which refuse dealing with shares derivatives on other hand Islamic bank must not delay cash with delay goods in one contract . When auditor found these types of contracts in Islamic bank he will give negative report because it gives idea of dealing against Islamic rule.

2.1 Possibility using derivatives in Islamic companies

Islamic companies adjusted contracts by added conditions as option for three days to test goods as car in buying contract or added time as three days to find other buyer to sell the goods with profit not as commissioner but as trader who buy goods to sell it with profit.

Islamic companies accept products sales derivatives in general but Islamic rule obligate the contract not to be subcontract to first contract. Islamic banks try to use ***(Mowazy contracts***) to buy goods in future with limit time and make other contract before get goods. The second contract is showing the Islamic bank selling goods with same descriptions of goods in first contract to other buyer in future with the same limit time in the first contract. To success the dealing, cash must be bought in the first contract to seller and Islamic bank get cash from the buyer in the second contract. Islamic bank will get profit as the follow: (Abdullah, 2006)

In second contract Islamic bank get **cash from buyer goods** and must be more than cost

_ (Minus)

In first contract Islamic bank buy **cost of buying goods**

Profit in future after contract time executive

Islamic Bank may face problem of seller negative ability to buy goods in the limit time which affected by obligated Islamic bank to give goods to the buyer in the second contract even this way cause increasing of costs.

This cases show that Islamic banks deal with direct investing but Traditional banks deal derivatives in direct investing or financing and in indirect investing or in indirect financing beside that Islamic banks are not accept delaying cash and goods to gather.

This result affect on finance tables. Islamic banks will deal with delay selling contract in income statement and receivable note, debtor, Payable notes, and creditor in balance sheet. In general Islamic rules avoid derivative in delay contract as subcontract contract. *Mowazy contracts* are developed contract in Islamic companies. In (*Mowazy contracts*) it separates Islamic bank buying contract from Islamic bank selling contract which shows there is no derivatives as subcontract. Its disclosure is related to real contracts which had been fixed in financial tables which make financial tables more stable than traditional banks which use derivatives.

Islamic bank managing his risks by traditional direct finance tools and direct investing tools to face problems as cost of stores or changing of goods price, ex: it owns small companies which produce and sell goods or build reserves to face risks or build box of facing investment risk (Jordan Islamic Bank annual report, 2015)

2.2 comparing of possibility derivatives affection in Islamic companies financial tables and Traditional companies financial table

There are differences between Islamic companies and traditional as result to comparing of possibility derivatives affection in Islamic companies financial tables and Traditional companies financial tables. This deference is shown in the next table:

Table no (1) Differences between possibility using derivatives in Islamic companies and traditional companies

Items of comparing	Traditional Companies	Islamic companies
Using Derivatives	It uses derivatives as promising subcontracts to deal in future	It not uses derivatives as result to Islamic rules and managing risks by direct investing tools or direct financing tools.
Reason of using Derivatives (its aims)	To transfer risk or reduce risk or make unusual return by speculation there fore it uses indirect tools beside direct tools to manage investing and financing.	Against Islamic rules
Affected of derivative using on financial tables	Derivative has cost and cause profit or reduces loose but it has not been shown in balance sheet or income statement as result to accounting principle: Just fixed the happen dealings.	It not be affected as result to avoid using derivatives
Affected of derivative using on accounting data	1- Income statement items and balance sheet Items which related to derivatives using will be affected by value of derivatives before contract executive time to give expected size amount also its value affected on item after executive time to give real size of amount 2-Derivatives must be shown in annual report by showing it in notes and explanations up to the derivative using aims which show accounting data before using derivatives and affection before executive time also the result of using after executive time.	1- It not uses derivatives but it will affected by derivatives accounting problem when it buy traditional company in order to change it to Islamic company. It must cancel dealing with derivatives which may cause loose as other dealer compensation. 2- Its study of demands and supply will be affected by false data if dealing with derivatives size big than deal need and real supply. False data of producing needs and storing will cause loose when it becomes less than real need
Affected of derivative using on financial analyst	1- There are needs to get derivative using financial tables show items before using derivatives and affection before on value before executive time also it must show value of item after executed time in order to make comparing of success managing risks or speculation. 2 there are needs to understand grantee loose or compensations as result to default dealing 3- Analysis by ratios will adjusted items value up to derivatives value to be accepted 4- Analyst must under stand that future result of company will be affected by unusual return and unusual loose because of derivatives speculation	Financial analysis will deal with ratios that be accepted by Islamic rules which avoid using derivatives in Islamic companies managing risks. Its unexpected loose less than unexpected loose in the traditional companies.

3. Success of using derivative factors to get value

As result to using derivatives in Traditional companies there is need to find Possibility Derivatives affect in financial tables or to find suitable derivative financial table. This possibility needs to study factors. Derivatives success using is affected by its description, its place in financial tables, its accepted reason of using, its cost, its amount, its type of market, its legal accepted, its reevaluate value, way of managing derivative contracts, aim of managing derivatives contracts, problems of sales as fire, selling contract before execution time, and its added value, see next table:

Table no (2): Factors which success using derivatives

Factors of derivative description	**Factors of place of using in financial tables**	**Factors of reason of using**	**Factors of its current cost**	**Factors of its future cost**	**Factors of amount of Its affected on financial table Item value**	**Factors of type of derivative market**	**Factors of its legal accepted**	**Factors of reevaluate derivative affection on value**
Type of dealing as currency, interest, shares, and products as goods	liabilities	Transfer all the possible loss	Buy cost as grantee fees	Added loss	Item value before using of derivative	First market as goods market as sell loans of received notes by discount up to expect of buyer default	Traditional local law	Increase Assets value
Basic contract which cause derivative								
Type of delay as from one dealer or from all dealers								
Time of signing the contract								
Time of execution	Assets	Transfer part of possible loss	Buy cost as legal fees	Added profit	Item value after using derivative and before applying time	Second market as sell in financial market derivatives bonds up to possibility increasing of interest	Company managing law	Reduce liabilities value
Amount	Equities	Speculation to get unusual return	Buy cost as commission	***Other factors**	Item value after using derivative	Third market up to dealer dealing conditions	Company Culture accepted	Increase net profit after tax
Price in the derivative contract	sales	***Other factors**	***Other factors**		***Other factors**	***Other factors**	International law	Increase demand on company shares buying
Affected rules up to the changing in market between time of signing and execution	costs						***Other factors**	Increase reputation
Grantee	***Other factors**							Give value to labors
Way of law documented								Give value to government
Value of the derivative as way of managing risk rather than Alternatives available								Give value to shareholders
Fixed condition to all dealer								Give value to suppliers
Flexibility condition up to dealer benefit								Give value to creditors
***Other factors**								Give value to customers
								***Other factors**

Note: (*) it is other factors which depend on the dealing environment and change from time to time therefore it added more factors. Some factors may reduced by environment change from time to other. Derivative dealing is dynamic case always in change up to possibilities and up to affection factors.

3.1 Success way of managing derivatives contracts to reevaluate its value There are ways of managing derivative contracts which directed by managing aims to cause added value as in the next table:

Table no (3): Factors of managing derivatives contracts

Type of managing derivatives	**Aim of managing**	**Added value to company**
Adjusted the condition of derivatives contract as added grantee	To increase derivative value as increase demand of buying from investors because grantee give safety of dealing because of reduce risk of execution. It could increase credit classification to get loan from the bank by grantee of derivatives contract after adjusted with grantee	+ profit after tax
Collect derivatives in one portfolio as goods derivatives, currency derivatives, and share derivatives contracts. Collecting give idea that every contract has cost and value.	Managing risks by making one portfolio include deferent risks with flexibility to make changing in the portfolio as restructuring	+ assets value
Merge derivatives in one contract as collecting derivatives in one investing with one cost and one value	Managing risks by produce one derivative includes all risks but with strength point to reduce risk	- liabilities
The heart of the derivative contract to another derivative as derivative of buying bonds in the company to become derivative of buying share in this company as result to the contract of heart bonds as creditor to be share as shareholder.	Managing risks by change the risk to other risk	+ share value in financial market Other added value as increase its reputation by government customers, employees, supplier, and creditors

3.2 Success aims of using derivative contract

Using of derivatives may cause reduce of loss or make profit or transfer loss. As result to this affection it will affect on accounting data in future as result to using derivatives in assets, liability and other financial tables' items. External financial analyst and external accountant can not evaluate company with out find the derivatives using and it affected in the item. They need to compare the factors of success with the items of financial tables as using derivatives to manage stores risk in balance sheet, see next tables:

Table no (4): Derivatives affection on balance sheet by reduce loss

Derivative using in balance sheet	**Derivative using in balance sheet with expected value is not appear**	**Derivative using in balance sheet with applied value after month and derivatives reduce loss**
Current assets 1000	**Current assets 1000**	**Current assets become 850**
Cash 100	Cash 100	Cash 100
Stores 100 unit and market price = 9 per unit therefore stores expected value = 900	Stores 100 unit (sell 50 unit from stores by foreword contract by 8 per unit because of expect reducing of price with execution time after month there fore the expect value for store will be 50 unit by market price after month and 50 unit y the contract to sell by 8 per unit	**Store value =** (50 unit* 8 up to fore word contract which is obligated contract) + (50 unit * market price 7) = 400+350 = 750 **There fore cash will be 100 + 750**
Fixed assets 1500	**Fixed assets 1500**	**Fixed assets 1500**
Building 1000	Building 1000	Building 1000
Cars 500	Cars 500	Cars 500
Liabilities 500	**Liabilities 500**	**Liabilities 500**
Equities 2000	**Equities 2000**	**Equities become 1850**

Derivatives may used to increase profit. It may get unusual profit in execution time but manager get it personally and just show the usual profit which equal the store value in the first balance sheet. This case needs to be shown in order to understand the real amount of profit. See the next table.

Table no (5): Derivatives affection on balance sheet by making profit

Derivative using in balance sheet	**Derivative using in balance sheet with expected value is not appear**	**Derivative using in balance sheet with applied value after month and derivatives make profit**
Current assets 1000	**Current assets 1000**	**Current assets 1200**
Cash 100	Cash 100	Cash 100 **Store value =** (100 unit* 11 up to foreword contract which is obligated contract) = 1100 **There fore cash will be 100 + 1100 after selling stores**
Stores 100 unit and market price = 9 per unit therefore stores expected value = 900	**Store** include 100 unit and company expect increasing of price it sells all store by 11 per unit with foreword contract which execution time will be after month	
Fixed assets 1500	**Fixed assets 1500**	**Fixed assets 1500**
Building 1000	Building 1000	Building 1000
Cars 500	Cars 500	Cars 500
Liabilities 500	**Liabilities 500**	**Liabilities 500**
Equities 2000	**Equities 2000**	**Equities 2200**

Company must show the selling of derivative contract before execution time as way to transfer risk. It may sell its right of selling by transfer risk to other company. It gets the profit before time of execution as result to increasing demand on the store goods. Ex: the company sell the goods by 10.5 per unit which make the forward contract return = 1050 while the new owner will get profit equal 0.5 per unit in execution time as result to sell goods by 11 per unit, see next table :

Table no (6): selling derivatives right affection on balance sheet

Derivative using in balance sheet	**Derivative using in balance sheet with expected value is not appear**	**Derivative had been sold by 10.5 per unit before execution time**
Current assets 1000	**Current assets 1000**	**Current assets 1150**
Cash 100	Cash 100	Cash 100 **Store value =** (100 unit* 10.5 up to sell foreword contract which is obligated contract to other seller who will give the store goods by 11 per unit) **There fore cash will be 100 + 1050 after selling stores before execution time to get liquidity**
Stores 100 unit and market price = 9 per unit therefore stores expected value = 900	**Store** include 100 unit and company expect increasing of price it sells all store by 11 per unit with foreword contract which execution time will be after month	
Fixed assets 1500	**Fixed assets 1500**	**Fixed assets 1500**
Building 1000	Building 1000	Building 1000
Cars 500	Cars 500	Cars 500
Liabilities 500	**Liabilities 500**	**Liabilities 500**
Equities 2000	**Equities 2000**	**Equities 2150**

3.3 Success solving company problems before execution time

There are expected problems that affect on ability of company to sell store up to derivative condition in execution time as problem of fire, goods damaging and theft. This will cause problem of ability to give stores in execution time therefore company may loss its grantee, reputation, fines. It may solve the problem by buy the goods from the market and stores it until time of execution. These will affect on balance sheet and need to be shown in order to understand the real amount of loss.

Table no (7): derivatives affection on balance sheet after lost in store before execution time

Derivative using in balance sheet	**Derivative using in balance sheet with expected value is not appear**	**It face loose of store before execution time**
Current assets 1000	**Current assets 1000**	**Current assets 1100**
Cash 100	Cash 100	Cash --------- **Store value:** was reduced by fire to be just 90 unit and company buy the 10 unit from market by 10 per unit to complete the order of derivative. **There fore cash will be in execution time= zero + 1100**
Stores 100 unit and market price = 9 per unit therefore stores expected value = 900	**Store** include 100 unit and company expect increasing of price it sells all store by 11 per unit with foreword contract which execution time will be after month	
Fixed assets 1500	**Fixed assets 1500**	**Fixed assets 1500**
Building 1000	Building 1000	Building 1000
Cars 500	Cars 500	Cars 500
Liabilities 500	**Liabilities 500**	**Liabilities 500**
Equities 2000	**Equities 2000**	**Equities 2100**

3.4 Success of derivative using to get added value

Company success will affect on shareholders to get profit and avoid expect loss. It affect on creditor as result to get its loan and interest also success will give employees courage to work as result to get there salaries and benefits as training. Supplier will get safety to get his money. Customer can get goods with suitable cost. Government can get tax and reduce unemployment on other hand using derivative will cause reducing of value, see next table:

Table no (8): Cases of derivative using to get added value

Case of derivative using to get added value for all dealers with company	**Case of derivative using to get added value for some dealers with company**	**Case of derivative using but it cause loss**
Shareholders Creditors Employees Government Supplier customer	As giving added value for some dealer and reduce added value for employee because derivatives make changes in managing structure to reduce using employees or derivative cause problem in equilibrium point to give false data which make crises	Loose

Comparing by these tables show needs to find derivative affection on financial tables. Companies must show these tables as notes in its annual report to give explanation to external auditor and external financial analyst Its important comes because accounting principles do not fixed dealing which not happen therefore derivative show dealings which not happen in current time in traditional companies as dealing with subcontracts but in Islamic companies as Islamic banks, it shows just delay selling or buying contract with out subcontracts therefore it is fixed as debtors or receivable notes in assets also creditors or Payable notes in liabilities on other hand it affects on sales return in income statement.

Derivative dealing causes problems. (Ruchi Gupta, 2004) explain the negative affection of derivative on economic because it affect on economic policies as currency policy and demands of products by direct factors negatively. (John, 2006) derivatives dealing changing in market increase more times the world gross domestic product which affect on the real price in market. (Eric and Lorin,2000) explain the using of grantee and insurance also internet to increase its derivatives selling which will affect negative on insurance market as result to complex dealing. (C. Johnan, George and Jot, 2012) analyzed the impact of a transaction tax on the market quality of U.S future markets. They found that a transaction tax may not raise substantial revenue for the government as suggested in other studies. This negative affection will reduce its added value.

Conclusion: this search investigated differences between affection of using derivatives in Islamic companies and Traditional companies. It found that Islamic companies are forbidden to use derivative as subcontract but it is affected by loosing of cancel derivatives dealing when it owns traditional companies in order to change its financial structure and its investing structure to follow Islamic rules beside it is affected by false demand and false supply which cause by big size of derivative dealing. False demand and supply will affect on store value and sales price. Traditional companies dealing with derivatives to reduce loose or transfer loose or speculate to make unusual return. The deference causes need to get notes and explanation by financial table to show accounting item size before use derivative also the size after deal with derivative and after executive time to understand its aims. Differences cause need table of success factors of using derivatives to evaluate the derivative value, success way of managing derivatives contracts before executive time and added value. Deference cause needing to use deferent financial ratios and deferent financial analysis depend on applying Islamic rules.

Recommendation: searcher recommended applying the tables' number 1-8 in order to help analysis income statement and balance sheet. It can be organized to be suitable work papers to give fairly financial report and show the real deference of accounting procedures for international accounting standards see next table:

Table no (9): Financial analyst work papers in Traditional companies

Steps to test currently buying derivative success		**Steps to test owning derivative success during time of contract and before executive time**	**Steps to test its owning derivative value in executive time**
First: steps to test derivatives value by the question: why it has value?	**Second: steps of derivative benefit in company managing risk to meet its aims**	1- Is company sell derivative before executive time with profit or loss?	1- Can company cancel derivative contract and what it is cost?
1- Is it has cost?	1- Can company reduce expect loose?	2- can company reduce derivative loose or increase profit by collecting derivatives in one portfolio	2- Can company obligate other dealer to apply the dealing as in the contract?
2- What will increase its cost or decrease its cost?	2- can company transfer expect loose	3- can company reduce derivative loose or increase profit by merge derivatives in one portfolio	3- Is company faces default and must buy compensation or loose its grantee to other dealer?
3- Is there grantee may affect on its value?	3- Can company sell the derivative before executive time to get profit or avoid its cost?	4- can company reduce derivative loose or increase profit by collecting derivatives in one portfolio to be sold as investment certification to transfer risk to investment certification buyer	4- Is company face dealer default and get suitable compensation or get the dealer grantee?
4- Is there law affect on derivatives dealings?			5- Using derivatives cause added value to government, customer, employee, share holder, creditors, and others?

Table no (10): Financial analyst work papers in Islamic companies

Steps to test reason to find derivatives	**Steps to test success way to cancel derivatives from assets and liabilities in balance sheet or is sales and costs in income statement**	**result**
1-Is the Islamic company buys small traditional company which has derivatives in assets or sells derivatives in liabilities.	1- Is Islamic company cancel derivative contract with cost?	1-Get loose 2- Get profit 3- There is no profit or loose 4- Finance voluntary financial contributions box to get social support and avoid derivative value in its financial tables
2- Is there misunderstand from risk manager as result to weak understand of deal with Islamic rules?	2-Is Islamic company get agreement from derivative dealer to restructure derivatives with suitable selling, sharing, leasing, working contracts	
3- Is there trick to own its value after cancel contract by Islamic rules	3-Is Islamic company complete derivative contract dealing then it restructure its liabilities and assets to meet Islamic rules	

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