Accounting Treatment of International Accounting Standard No. 18 Revenue Compared to the Islamic Accounting Standard No. 20 Deferred Sale
A Comparative Study

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Abstract

This study aimed to identify the accounting treatments of revenue according to the international accounting standard (IAS) No. 18 and to compare it with the accounting treatments of deferred sale according to the Islamic accounting standard No. 20. The descriptive approach has been applied in this study by reviewing literature, books, and international and Islamic standards that dealt with the study subject. Accordingly, a non-hypothesis has been established; there is no difference in the accounting treatment of revenue in accordance with IAS. No.18 and the revenue resulting from the deferred sale operation in accordance with Islamic Accounting Standard No.20. The hypothesis has been tested through extracting the most important rules of registration by creating a comparative summarizing table. The study reached several conclusions among which: there is no significant difference in the accounting treatment of both standards, both standards apply the accrual principle to confirm revenues and profits in revenue operations, revenue is measured by the fair value of both standards, and both standards have emphasized the importance of disclosure in the followed accounting methods related to revenue. The researcher recommended several recommendations, the most important was the importance of integrating more than one standard of the Islamic standards that are related to achieving revenue in order to be in line with international standards, since there is a great similarity in terms of agreement on the application of the accrual principle and measuring revenues by the fair value and accounting treatment, on the other hand, difference only occurred in accounts naming.

Keywords: *Revenue, Deferred Sale, International Accounting Standard No.18, Islamic Accounting Standard No.20.*

Introduction

Accounting has been used to organize commercial registration procedures in a scientific manner based on unified basis for all accounting specialists. With the expansion of business and companies activeness in the twentieth century, accounting problems have increased, so these entities became incapable of solving many economic and financial issues. Discretion became the solution in treatment and registering operations of financial impact based on personal estimations. Hence, it was necessary to establish scientific foundations and principles on which the accountant relies on in the registration operations and as a result of the urgent demands by decision makers to provide correct and scientific accounting data and information, many vocational organizations have been established; which have helped in the emerge of international accounting standards. One of the standards that were important to establish their foundation is revenue operations. Therefore, international standards have set standard NO. (18) which defines how to deal with such operations.

Almaliqi (2000) considers that sales contracts are a form of investment in the Islamic system, ruled by Islamic Shari'a (legislation). It forms a financing source in Islamic financing institutions, especially in Islamic banks. Deferred sales have widely spread in different societies and have become a common operation in people's lives and a confirmed phenomenon in economic transactions. Therefore, institutions have been established to finance them, and studies have been made on their economic role and to which extent banks interfere in them as long as their funds are distributed among them and the specialized institutions. Islamic banks did not deviate away from this rule, so they used deferred sales as a financing legal juristic organized tool. Sales depend on two types: deferred payment sale and accelerated sale or what is called future commodity sale. In this study we focus on the first type of sales.

Study Problem

As a result of the different accounting treatments, accountants differed in the processes of registration and recognition. This led to varying income lists and different financial centers' lists in business organizations. Therefore, if there are nominal differences limited to accounts' names, this will help to find unified accounting standards, taking into account maintaining the privacy of each financial system copes with the states' cultures and nature. Out of this, the study problem has emerged in order to answer the following question:

- Is there a difference in the accounting treatment between the Islamic accounting standard No. (20) related to deferred sale, and the international accounting standard No. (18) related to revenue?

Study Importance

The importance of this study is to identify the subject of sale which is one of the most common contracts in transactions. Daily, a person makes more than one contract of sale or purchase for food, drinks or clothing. Contracts of sale are the most complete means to exchange money, as for they allow investing the sale or the price in all what the two parties need to sell, grant, mortgage or lease. Selling has many economic and social benefits over the individual and the Islamic community, as for it grows the individual's wealth in the first place, and benefits the whole community as a result. Since deferred sale is one of the legal forms of sales, this study will focus on the accounting treatments and their legitimacy; a comparison will be made between the accounting treatment of deferred sale in accordance with the Islamic standard No. 20 and the accounting treatment of the installment sale stated in IAS No. 18.

Study Objectives

This study aimed to identify the accounting treatment of deferred sale according to standard No.20 issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). It also aimed to provide recommendations for the possibility of unifying the accounting treatments between the two standards while maintaining the names of each standard without affecting the organizations business results. Other objectives of the study include:

1. Clarifying the similarities and differences of deferred sale accounting treatment between the Islamic standard No.20 and the international standard No.18.

2. Increasing the awareness of all concerned parties about Islamic accounting standards and their conformity with the international standards.

Study Hypothesis

The study non-hypothesis is:

H0: There is no difference in the accounting treatment of revenue resulting from deferred sale in accordance with Islamic accounting standard No.20 related to deferred sale and the international accounting standard No.18 related to revenue.

Study Methodology

To achieve the study objectives, the descriptive approach has been followed, which depends on the phenomenon as it exists in reality through the text of the same standards, in addition to what have been written about it in the international and Islamic standards and references. Based on this, a comparison has been made accordingly and has been expressed in a qualitative way, which means in a narrative analytical comparative manner with respect to accounting treatment till conclusions and recommendations are reached.

Data Collecting Aources

The needed data has been collected from books, references, journals, Islamic standards, international standards and others.

Theoretical Framework

First: Islamic accounting standard No.20: deferred sale

The lingual and conventional concept of sale:

The lingual concept of Sale (Bai') is the absolute swap. A sale means giving what is appraised for a price, i.e. paying compensation and taking what have been compensated. Purchase means giving a value in an exchange with what is appraised. Selling is the opposite of purchase. Abu Ubayd said: "Selling is one of the opposites in Arabic". It was mentioned in Hadeeth: (No man should enter into a transaction in which his brother has already entered), which means (not to sell what he bought). Sale and purchase each is used in the explanation of the other.

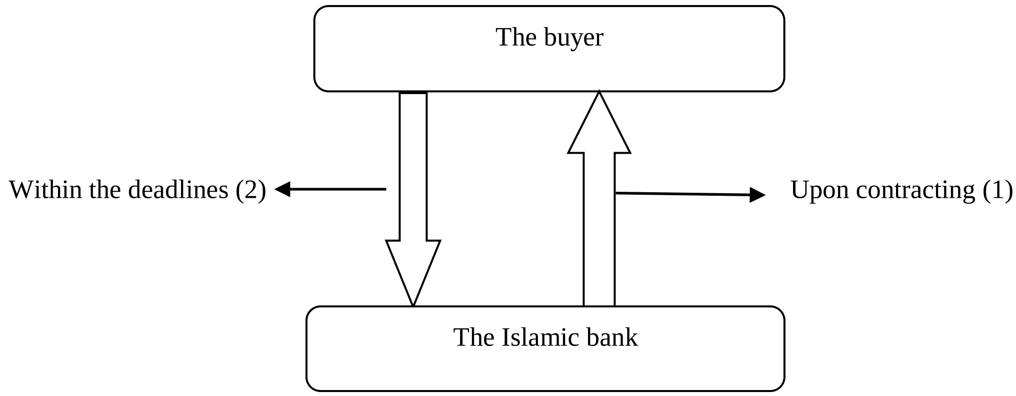
According to Islamic standard No.20, deferred sale operations in some institutions include a preparation period of one to three years in which commodities sold under a deferred sale contract are delivered and the assets are delivered in installments.

The concept of deferred sale

Linguistically, deferred (Ajal) means due time, validity date, and the duration of something. Postponement (Ta'jeel) is to determine the term. I asked him for a postponement so he postponed me for a specified period. (Alqist) means justice, share and portion. (Taqseet) means in a consecutive installments.

Conventionally, deferred means to sell the commodity at a deferred price that is more than the price in cash. It is to postpone the payment and accelerate the sale or the receipt of the goods. Deferred sale is the opposite of future commodity sale where the ownership of the goods is transferred to the buyer immediately upon delivery, and the seller becomes a creditor to the buyer at the price of the sale. (Mashhour, 1991, p. 345)

Deferred sale



(1): upon contracting: the bank (the seller) delivers the commodities.
(2): Within the deadlines: the buyer pays the prices according to the agreed instalments.
Source: Abdullah and S'eifan, 2008, p.262

Shari'a rules: (Abdullah and S'eifan, 2008)

1. The increase in the deferred price over the current price is allowed due to the overall evidence of sales validity.
2. It is permissible at the moment of bargaining to mention the price of sale in cash, its deferred price and its price in installments according to specified dates.
3. The deferred term and installments must be known in a timely manner in order to prevent the ignorance that leads to dispute and to spoil the contract.
4. The seller may require the buyer to mortgage the sale to guarantee his right to meet the deferred installments.

Pillars of sale

The pillars of sale are three: the formula, the two contracted parties, and the contracted issue according to the following details: (Mashhour, 1991, p. 328).

1. The formula: It is all what indicate an affirmation and acceptance, either explicitly or metaphorically.
2. The contracted parties: the seller and the buyer, for whom eligibility is required, i.e., reason and maturity. Therefore, it is not permissible to have a contract with a boy, a demented man, a slave without the permission of his master, nor with the blind. Moreover, the contractor should be contracting upon his own will not under compulsion, as for Allah Al-Mighty says: "O ye who believe! Eat not up your property among yourselves in vanities: But let there be amongst you Traffic and trade by mutual good-will…".

3 – The contracted issue: This means the price and the appraised or the commodity, which is required to be pure. It is not permissible to sell what is impure like pigs. The sale or the commodity must be of benefit, owned by the contractor at the time of sale, as it is not allowed to sell what is not owned, except in the future commodity sale. It is not permissible as well to sell what is extorted, because it is not the property of the seller, i.e. the extorter. It is also required in the sale the ability to be delivered, for example; it is not permissible to sell fish in water before fishing them, as for the individual may not be able to catch them. It is not permissible to sell what is unknown, therefore; the sale must be known in regard to quantity, description and price, in a way that prevent the emergence of dispute or argue between the two contracted parties.

Deferred sale conditions

Namely: the postponement of price with immediate delivery of goods, and determining the deferred period when contracting. This period starts at the date of delivery. Not clarifying the deferred term will invalidate the sale as for a dispute may arise. The price must be determined when contracting. If the seller has set two prices; one is immediate and the other is deferred, then the buyer chose one of them, that is, the option element is available in the sale, this is permissible; as for all scholars agree that it is permissible to increase the price for a deferred payment. If the seller and the buyer separate without determining the price selected by the buyer, the sale will be invalid due to the unknown price.

A deferred price can be in different forms (Mashhour, 1991, p.347):

1. Selling the commodity at the current price or at the market price through instalments or deferred payment without an increase. This is permissible; it is even preferable due to the facilitations it gives to the needy individuals. It also brings good and blessing for both parties.
2. Setting two prices for the commodity: a cash immediate price and a deferred price where the buyer should choose one of them. If he chooses the deferred price, he will pay it through installments or at once by the end of the deferred term. This is one of the common ways nowadays, especially in the business of durable commodity for its high prices, as it is the business of construction and building.
3. Postponing the price on the basis of lease sale where the seller and the buyer agree to sell a commodity from one to another with a definite fixed value, however; the ownership of the sold commodity is not transferred to the buyer unless he finishes paying the commodity price completely. If the contract is terminated for one reason or another, the seller retains the ownership of the commodity and the buyer benefits from the commodity against the rental paid value.

Second: The international accounting standard No. 18: Rrevenue

This accounting standard is applied over revenues that emerge from the following operations:

1. This accounting standard must be applied over revenues emerged from the following operations:
   i. Selling goods
   ii. Offering services
   iii. Using the project assets by others, from which interests, royalties and equity earnings emerge.

2. Commodities include the goods produced through the project.
3. Offering services usually includes implementing a task by the project.
4. The use of the project's assets generates revenues in the form of:
   i. Interest - charges for using cash
   ii. Royalties - charges for the use of long-term project assets.
   iii. Equity earnings – distributing revenues over investors in ownership according to their ownership's shares.

5. This asset does not address revenues arising from:
   i. Lease agreements.
   ii. Equity earnings arising from investments accounted by using the equity method.
   iii. Insurance contracts in insurance companies.
   iv. Changes in the fair values of financial assets and liabilities.
   v. Changes in the value of current assets.
   vi. The initial recognition and changes in the fair value of the biological assets of the agricultural activity.
   vii. The initial recognition of agricultural products.

Revenues measuring

Revenue is measured by the fair value of the received or usable amount. International financing reporting standard NO.13 refers to the measurement of the fair value and defines it as the amount that can be received for selling an asset or paid to settle an obligation on the measurement date for a regular operation between the parties that deal according to the current market circumstances. (Abu Nassar and Hmedat, 2014, p. 822).

Standard accounting treatment

Accounting treatment is done depending on revenue recognition basis at fair value. There are 4 revenue recognition cases:

1. Revenue is recognized when selling.
2. Revenue is realized after sale (sale by installments and leasing).
3. Revenue is achieved when production is finished (coffee, petroleum, gold).
4. Revenue is achieved during production (contracting), (natural growth cases such as trees).

The equivalent of Islamic accounting standard No. 20 is the second type of revenue recognition according to the international standard.

Study Hypothesis Testing

To test the hypothesis, we will present the Islamic accounting standard No.20, issued by the Accounting and Auditing Organization for Islamic Financial Institutions, and the international accounting standard No.18, and then we will compare them. The hypothesis is as follows:

H0: there is no essential difference in revenues resulting from deferred sale between the Islamic accounting standard No.20 and the international accounting standard No.18 related to revenues.

Accounting treatment of available-for-deferred sale assets (as in Islamic banks):

1. Available-for-sale assets are determined upon contracting once the cost is incurred. The registration is as follows: (Abdullah and S'eifan, 2008).

Dr. Assets available-for-forward sale	xxx	
Cr. Cash		xxx

The price of the asset add to it all expenses (based on the cost)

Dr. Cash	xxx	
Cr. Assets available-for-forward sale		xxx
Investment earnings	xxx	

2. At the end of the term, assets are measured by the fair value. The registration is as follows:

Dr. Assets available-for-forward sale (reevaluation)	xxx	
Cr. Reserve of the fair value for investments		xxx

The accounting treatment of revenues and earnings in deferred sale operations according to the Islamic standard No.20: (Accounting and Auditing Organization for Islamic Financial Institutions 2003, p.583)

1. Confirming the assets' revenues upon contracting:

The registration is as follows:

Dr. Cash xxx
Cr. Assets available-for-forward sale revenue xxx

2. Confirming earnings on accrual basis distributed along the contract term.

Accounting treatment for deferred sale receivables:

1. Deferred sale receivables are confirmed at their nominal value (contract value) and are measured at the end of the financial period on the basis of the expected net cash value, i.e. the amount of the debt required from the clients at the end of the financial period minus any provisions of debts doubtful collecting. The registration shall be as follows:

Dr. Accounts Receivable xxx
Cr. Earnings of the forward sale xxx

2. If the customer hastens the payment before the due date, part of the earnings shall be reduced as agreed. Thus part of the client's receivables shall be reduced as opposed to the registration as follows:

Dr. Earnings of the investments for forward sale xxx
Cr. Accounts Receivable xxx

3. The deferred sale receivables are presented in the financial center list, minus all deferred earnings and provisions of debts doubtful collecting.

Disclosure requirements:

1. The method used for the distribution of profits over the financial periods should be disclosed
2. Disclosing the total amount of deferred sale receivables.
3. Disclosing the policy followed in financing deferred sale.
4. Disclosing whether the institution has applied the option of canceling the contract of purchasing available-for-deferred sale assets.
5. Taking into consideration standard No. (1), which is the requirements of presentation and disclosure

Accounting treatment according to the international standard No.18

For example, the sale of a computer costing 500 and a profit margin of 50 in 10 installments on 1/1/2017, the registrations are recorded as follows:

Upon buying: Dr. Goods 500
Cr. Cash 500
Upon selling: Dr. Accounts Receivables – a person's name 550
Cr. Sales
550

Upon paying the first installment the registration is:
Dr. Cash 55
Cr. Accounts Receivables – a person's name 55

If the accounting treatment is carried on according to the opinion (that each installment carries a refund of cost and profit), the settlement registration is as follows:
Dr. Sales 45
Cr. Unearned sales revenue 45

Disclosure requirements:

The following should be disclosed:

1. The accounting policies used to define revenue, including methods used to determine the stage of completion of the operation involving rendering services, it is the amount of each type of revenue recognized during the period, including revenue arising from: sale of goods, rendering of services, interest, royalties, and equity earnings.
2. The amount of revenue arising from the exchange of goods and services included in each important type of revenues.

The conclusion of comparison

After reviewing the accounting treatment of operations of financial effect in both standards, the conclusion can be summarized through the following table:

A table that shows the comparison between Islamic Standard No.(20) and International Standard No.(18)

Comparison criteria	Islamic accounting standard NO. 20	International accounting standard NO.18
Deferred sale price	Higher than the cash price	Higher than the cash price
Rendered commodity	Upon an agreed price	Upon an agreed price
Accounting registration formula	Doubled entry	Doubled entry
Accounts names	agree with the Islamic Shari'a	Agree with the sale state
Migrate to the General Ledger	Normal	Normal
Account occurrence in the review balance	Normal	Normal
Income lists	Normal	Normal
Financial accounting list	Normal	Normal
Accounting treatment and revenue measuring	On the basis of fair value recognition	On the basis of fair value recognition
Disclosure requirements	Required	Required
Accounting basis	Accrual basis	Accrual basis

Source: by the researcher

Conclusions and Recommendations

Conclusions

1. There is no essential difference in accounting treatment between the international accounting standard No.18 Revenue and the Islamic accounting standard No.20 deferred sale.
2. The objective of the Islamic Standard is to set the accounting rules of deferred sale, while the objective of the international standard is to determine when revenue is recognized.
3. Islamic Standard No. 20 is applied only over deferred sales, while the international standard is applied to cash and deferred sales after determining the date of recognition of revenue.
4. Both criteria have agreed to apply the accrual principle in the recognition of revenue and profit of deferred sale transactions.
5. The Islamic Standard allocates an item for available-for-deferred sale assets as if such assets may not be sold in cash, since the intention at the time of purchase is for deferred sale only, whereas the international standard considers all available-for-sale assets (i.e. The commodities prepared for sale) ready for cash and deferred sale.
6. Both standards have agreed to measure revenue at fair value

7. Deferred sales receivables are stated in the financial center list minus all deferred profits and the provision of doubtful debts collecting according to the Islamic Standard. In the international standard, receivables debts should be shown minus provision of doubtful debts collecting.
8. Both standards agree to disclose the methods and accounting policies used in the distribution of profits and the classification of revenue generated by each source.

Recommendations

1. From the results we see that deferred sale is part of the revenue, where there is no essential difference between the two standards. Accordingly, the researcher suggests that the accounting standards issued by the Islamic Accounting Organization should review these standards and work on integrating more than one standard of revenue related standards in order to be in line with international standards. There is a similarity in the basics, in terms of agreement on the application of the accrual principle and measuring revenue at a fair value, as well as similarity in accounting treatment. The difference only occurs in the accounts names.

2. Reformulating the Islamic Standard No. 20, where the Organization has restricted available-for-deferred sale assets only for individuals dealing with debt. If individuals wish to buy such goods and wish to pay promptly in cash, how it will be? will these individuals be sold from these goods? This is the case if the bank played the role of the merchant because of the termination of the contract with the purchaser due to a failure in fulfilling the agreed terms where the goods became the property of the bank and the bank wants to get rid of them through Halal sale. The researcher suggests to have a text in the standard clarifies the way of getting rid of the available-for-deferred sale goods and how to sell them in cash.

3. The need for researchers and other scholars to deepen the comparison between these Islamic standards and the international standards, in terms of presenting them in the financial lists, accounting treatment, disclosure requirements and the integration, separating or deletion of some standards, and to indicate the differences to reach formulas that give one clear meaning for all investors, shareholders and interested parties.

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