

Assessment of Deviations in Iraqi Banks' Balance Sheet Budgets: A Case Study of Iraqi Islamic and Commercial Banks

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Abstract-Deviations are the difference between the planning budget and the actual for financial periods and specific financial accounts, and it is the tool that management uses it to control and to know the reality of achieving pre-set plans. The success of the budget and its positive deviation is evidence of achieving the institution's financial goals, and the negative deviation of the budget is evidence of the failure to achieve the budget, and then the administration must identify the causes of the deviation and address it. The research aims to analyze the results of the balance sheet budget and comparing them with the actual results, and determine the deviations if they are negative or positive for a sample of Iraqi private banks that are Consisting of (Islamic banks and commercial banks). In addition, the study sample consisted of Baghdad Bank, the Middle East Bank, Iraqi Islamic Bank, and National Islamic Bank for the fiscal years 2016 and 2017, as these institutions were chosen because they published discretionary budgets in their financial statements. Furthermore, the SPSS statistical tool was used in the study to analyze the deviation data. Islamic banks are better than commercial banks in terms of the rate of implementation of planning budgets since the majority of their statistical results are positive, which was one of the researchers' most important findings.

Keywords-Deviations, Balance Sheet, Budgets, Iraqi Banks, Planning.

1. INTRODUCTION

The efficiency of management depends on the accomplishment of the goals of an organization. It is effective when it attains the objective with the least cost and effort. A systematic approach for attaining effective management performance is budgeting, which is an integral part of management. This is the process of pre-estimation of cost, revenue, profit, and other figures for the next year or period and on the basis, actual expenses incurred revenue generated/earned. Afterward, the budget is used as a standard for measuring actual performance. The deviations are found out and responsibility is fixed for deviations. Various budgets are prepared for different purposes (University, 2011).

Budgetary control even in its rudimentary form has procedures in common with productivity accounting. There is a comparison of current performance with a base and some effort to isolate the direct effect of price change to study the non-price variation. More sophisticated systems provide for a comparison of actual with standard as well as budgeted performance, and for extensive analysis of variance

from both. It is usual with this type of budgetary control to calculate an "efficiency" variance or the difference between standard and actual performance after eliminating price and volume variance (Vataliya, 2009). Iraq's banking sector has advanced significantly. As a model of deposit for any financial institution, the banking sector is considered one of the key pillars of any economy (Al-Delawi, 2019).

II. RESEARCH METHODOLOGY

A. Research Problem

Budgetary planning is a forecast of financial operations for the coming years that also expresses the financial objectives that banks want to achieve, and the achievement of those objectives is achieved through continuous effective control, which may have an impact on banks' financial efficiency in planning. The study's problem might be described as follows: What is the effectiveness of the sample banks in budgeting planning and accomplishing the bank's financial goals?

B. Research Importance

A. Scientific importance: This study is significant because it attempts to discover the right use of planning budgets in Iraqi banks, compare them to real outcomes, and determine the results through deviations that demonstrate the effectiveness of bank departments in planning and management

B. Applied importance: The goal of this study is to get the bank to focus on the importance of commitment in budgetary planning and to use it as an effective means of controlling and evaluating performance that improves financial efficiency.

C. Research Objectives

Our objectives for this research are to achieve the following:

To determine the effectiveness of the Iraqi banks in formulating budgetary planning by comparing their performance to real outcomes and determining the efficiency of budget control.

To study the theoretical backdrop of the budgetary planning subject, as well as its benefits and characteristics, to comprehend banks' performance.

D. Research Hypothesis

The hypotheses that would be adopted in this research are:

1. The commercial banks in Iraq implement the budgetary planning effectively
2. The commercial banks in Iraq do not implement the budgetary planning effectively
3. The Islamic banks in Iraq implement the budgetary planning effectively
4. The Islamic banks in Iraq do not implement the budgetary planning effectively.

For the years 2016–2017, the sample employed in this study consisted of four private Iraqi banks: Two Islamic banks (Iraqi Islamic Bank and National Islamic Bank) and two commercial banks (Baghdad Bank and the Middle East Bank).

The analytical methodology was used to extract the results of this study. The analytical methodology is based on detecting and analyzing the basic elements of the topics under consideration and then studying them in-depth. In this case, it was used to shed light on the rules by which generalizations can be made that aid in the solution of social problems. The deviation (which represents the difference between the budgetary planning and the actual results achieved) was adopted as the results of research and SPSS was used to conduct the statistical analysis.

III. LITERATURE REVIEW

Budgeting takes a crucial part in corporate management, as it can be a form of financial reflection of strategic goals of a company, as well as a logical base for analysis of performance results and even a management motivation element. The budgeting process can be understood as a procedure for analyzing management decisions made in the

past, through which the rationality of using all currently available assets, as well as the sources involved, is assessed. Budgeting is a kind of a guide for a company, a base of the initial information for analyzing activities and evaluating work efficiency (Bondarenko et al., 2020). Budgeting sets clear financial goals for the organization. Budgeting also provides a basis for judging the financial performance of the organization. The types of budgets used by businesses vary somewhat according to the nature of their operations (Webster, 2004).

Budget can be defined as “a quantitative work plan relating to a specific period of time” (Walker, 2005). Basheka and Nabwire (2013) considered budgeting as a process by which an organization's management comes up, states and communicates, in financial terms, the organization's time-bound expectations, goals and objectives in clear, formal terms to avoid confusion and to facilitate their attainment at all levels: Top management, department heads, employees, and funding agencies.

Not everyone, of course, is responsible for preparing budgets, but everyone within a range the organization will be affected by it, sometimes without consciously realizing it. The manager will be required to develop budgets for his area of responsibility and manage operations within his competence to ensure the achievement of the budget. Thus, the subordinates of the manager will have individual responsibility to ensure that a particular area of activity matches the values and expectations expressed within the general budget (Coombs et al., 2005).

The balance sheet is defined as the list that shows the assets and liabilities of the company and the owners' rights for a specific period of time (Thabit and Abbas, 2017).

The budgeted balance sheet is a projection of financial position at the end of the budget period. This budget is developed from the budgeted balance sheet for the preceding year and the budgets for the current year (Weygandt et al., 2015).

A. Budgeting's Benefits

Budgeting has many advantages for businesses, including (Garrison et al., 2010):

- Budgets disseminate management's plans around the business
- Budgets compel executives to consider and prepare for the future. Many administrators would spend more of their time coping with day-to-day crises if they did not have to plan a budget
- The budgeting process allows money to be allocated to the areas of the company that can use them most efficiently
- Budgeting will identify possible bottlenecks before they happen
- Budgets integrate the strategies of the organization's different sections to organize its operations. Budgeting ensures that everybody in the company is working in the same direction
- Budgets establish targets and priorities that can be used to assess subsequent results.

B. Characteristics of the Budget

The important characteristics of a budget are: (Gopal, 2009)

- A detailed strategic plan showing what the business wants to accomplish
- Enhancement of organizational performance
- Expressed in terms of quantity, physical and monetary terms, or both
- For the achievement of specific goal
- A proper accounting system is an important to establish budgeting process
- The authority and duty correct fixation scheme is necessary to be implementing in the place.

IV. RESULTS ANALYSIS AND DISCUSSIONS

The results of the applied analysis of the research, represented by the difference between the actual and planned results of the banks of the study sample (Baghdad Bank Middle East Bank, Iraqi Islamic Bank, and National Islamic Bank) are as follows:

From Table I, we note that the largest positive result of deviation was IQD 23,857,136 and which is represented 164% in fixed assets account in 2017, while the smallest positive result was IQD 303,137,628 which is represented 23% in Other payables and balances accounts in 2017, and the largest negative result of deviation was IQD 62,882,670 and which is represented 90% in Deposits account in 2017, while the smallest negative result of deviation execution ratio was IQD 30,593,915 which is represented 16% in investments in financial assets available for sale accounts in 2016.

From Table II, we note that the largest positive result of deviation was IQD 31,425 and which is represented 342% in accounts with external banks account in 2016, while the smallest positive result was IQD 7,263 which is represented %108 in Issued documentary credits accounts in 2016 as well.

And the largest negative result of deviation was IQD 87,500 and which is represented 275% in payables account in 2017, while the smallest negative result was IQD 30,430 which is represented 8% in internal letters of guarantee accounts in 2017.

From Table III, we note that the largest positive result of deviation was IQD 40,536,313 and which is represented 37% in credits account in 2016, while the smallest positive result was IQD 106,224 which is represented 1% in expenses accounts in 2016 as well. And the largest negative result of deviation was IQD 31,243,313 and which is represented 75% in investments account in 2016, while the smallest negative result was IQD 363,681 which is represented 4% in investments as well in 2017.

From Table IV, we note that the largest positive result of deviation was IQD 1242 and which is represented 120%

TABLE I
BUDGET EXECUTION AT BAGHDAD BANK (AMOUNT IN IQD)

Account detail	Budget In thousands	Actual in thousands	Deviations (positive negative)	Execution ratio (%)
2016				
Cash	959,062,547	541,806,853	-417,255,694	56
Deposits and balances from banks and financial institutions	425,984,562	276,377,930	-149,606,632	65
Investments in financial assets available for sale	36,458,903	5,864,988	-30,593,915	16
Credits	268,273,667	195,066,079	-73,207,588	73
balances and other receivables	75,626,616	23,788,472	51,838,144	31
Long-term investment with central banks	119,635,273	97,399,325	-222,359,488	81
Fixed assets	39,665,770	60,120,470	20,454,700	115
Deposits	1,226,837,914	827,926,225	-398,911,689	67
Other payables and balances	353,450,628	83,119,810	270,330,818	24
2017				
Cash	621,277,329	500,901,780	-120,375,549	80
Deposits and balances from banks and financial institutions	386,791,503	248,211,609	-138,579,894	64
Investments in financial assets available for sale	62,855,552	4,634,506	-58,221,046	7
Credits	224,039,536	145,602,262	-78,437,275	64
balances and other receivables	53,952,696	40,529,182	13,423,514	75
Long-term investment with central banks	98,592,895	89,229,977	-9,362,918	90
Fixed assets	37,186,195	61,043,331	23,857,136	164
Deposits	777,405,552	714,522,882	-62,882,670	90
Other payables and balances	398,358,902	95,221,274	303,137,628	23

*Source: researchers calculation, *IQD=Iraq Dinar

in fixed assets account in 2017, while the smallest positive result was IQD 71,498 which is represented 70% in Cash accounts in 2016 as well. And the largest negative result of deviation was IQD 6,702 and which is represented 270% in payables account in 2016, while the smallest negative result was IQD 1.330 which is represented %68 in payables accounts as well in 2017.

TABLE II
BUDGET EXECUTION AT MIDDLE EAST BANK (AMOUNT IN IQD)

Account detail	Budget in millions	Actual in millions	Deviations (positive negative)	Execution ratio (%)
2016				
Cash credit	196,792	126,346	-70,446	64
Investments	55,000	42,802	-12,198	78
Internal letters of guarantee	32,000	24,160	-7,840	76
External letters of guarantee	15,500	4,463	-11,037	29
Issued documentary credits	90,000	97,263	7,263	108
Accounts with external banks	13,000	44,425	31,425	342
Current accounts and deposits	428,865	326,517	-102,348	76
Allocations	30,000	8,617	-21,383	29
Payables	30,000	61,086	31,086	204
2017				
Cash credit	157,150	100,252	-56,898	64
Investments	55,000	36,364	-18,636	66
Internal letters of guarantee	33,000	2,570	-30,430	8
External letters of guarantee	10,000	15,335	5,335	153
Issued documentary credits	155,000	16,140	-138,860	10
Accounts with external banks	13,000	8,815	-4,185	68
Current accounts and deposits	425,915	332,579	-93,336	78
Allocations	30,000	3,984	-26,016	13
Payables	50,000	137,500	-87,500	275

*Source: Researchers calculation

TABLE III
BUDGET EXECUTION AT IRAQI ISLAMIC BANK (AMOUNT IN IQD)

Account detail	Budget in thousands	Actual in thousands	Deviations (positive negative)	Execution ratio (%)
2016				
Credits	110,262,000	150,798,313	40,536,313	37
Investments	41,407,878	10,164,565	-31,243,313	75
Cash	264,392,093	279,486,064	6,093,971	2
Revenues	23,875,530	20,335,047	-3,540,483	14
Expenses	11,655,845	11,549,621	106,224	1
2017				
Credits	138,262,000	156,409,405	18,147,405	13
Investments	10,351,970	9,988,289	-363,681	4
Deposits	143,038,841	115,751,406	-27,287,435	19
Revenues	24,565,658	22,997,715	-1,567,943	6
Expenses	11,747,774	14,115,433	-2,367,569	20

*Source: Researchers calculation

V. DESCRIPTIVE STATISTICAL ANALYSIS

To reach the statistical results, the following measures were used (Mean, Minimum, Median, Maximum, and Range) using the SBS statistical analysis program, and the results were as follows:

The results of the statistical analysis in commercial banks showed that the largest result of budget implementation was

TABLE IV
BUDGET EXECUTION AT ISLAMIC NATIONAL BANK (AMOUNT IN IQD)

Account detail	Budget in millions	Actual in millions	Deviations (positive negative)	Execution ratio (%)
2016				
Cash	240,740	169,242	-71,498	70
Investment	119	119	0	100
Cash credits	455,000	454,972	-28	98
Receivables	33,340	41,008	-7,668	123
Fixed assets	6,107	5,399	-708	91
Deposits	384,538	329,794	-54,744	86
Allocations	50,641	45,481	-5,160	90
Payables	3,931	10,633	-6,702	270
Capital	251,000	251,000	0	100
Reserves	45,198	33,832	-11,366	75
2017				
Cash	289,000	195,698	-93,302	68
Investment	119	106	-13	89
Cash credits	487,000	554,403	67,403	114
Receivables	30,000	52,264	-22,264	174
Fixed assets	6,300	7,542	1,242	120
Deposits	446,219	470,256	24,037	105
Allocations	59,000	43,670	-15,330	74
Payables	4,200	2,870	-1,330	68
Capital	251,000	251,000	0	100
Reserves	10,978	11,907	929	108

*Source: Researchers calculation

in the Bank of bank in 2016 with a value of IQD 51,838,144 in balances and other receivables account and the lowest result was in the Middle East bank with a value of IQD -417,255,694 in cash account.

While the largest result was Mean and Medium in the Middle East Bank in 2016 with a value of IQD -17,275 and IQD -11,037, respectively, and the lowest result was Mean and Median in the Bank of Baghdad in 2016 with a value of IQD -152,455,270 and -111,407,110, and the largest result was range in the Bank of Baghdad in a year 2016, with a value of IQD 469,093,838, and the lowest result of Range was at the Middle East Bank in 2016, with a value of IQD 133,773.

The results of the statistical analysis in Islamic banks showed that the study sample was the largest budget implementing result and the lowest result was in the Iraqi Islamic Bank in the year 2016 and with a value of IQD 40,536,313 in credit account and IQD -31,243,313 in investment account, respectively.

While the largest score for mean, medium, and range was in the Iraqi Islamic Bank as well in 2016 with a value of IQD 2,390,542.40, IQD 106,224, and IQD 71,779,626, respectively.

Tables V and VI of the statistical analysis, the results of commercial banks show that they are the best in the application of budgetary planning because their results are positive in the maximum scale in the Baghdad Bank at the year 2016 and with a value of IQD 51,838,144, And this indicates the validity of the third hypothesis: The commercial banks in Iraq implement the budgetary planning effectively.

TABLE V
DESCRIPTIVE STATISTICAL ANALYSIS OF COMMERCIAL BANKS (AMOUNT IN IQD)

The banks	Years	The scales				
		Mean	Minimum	Median	Maximum	Range
Baghdad bank	2016	-152,455,270	-417,255,694	-111,407,110	51,838,144	469,093,838
Baghdad bank	2017	-53,822,338	-138,579,894	-60,551,858	23,857,136	162,437,030
Middle East bank	2016	-17,275	-102,348	-11,037	31,425	133,773
Middle East bank	2017	-50,058	-138,860	-30,430	5,335	144,195

*Source: Researchers calculation

TABLE VI
DESCRIPTIVE STATISTICAL ANALYSIS OF ISLAMIC BANKS (AMOUNT IN IQD)

The banks	Years	The scales				
		Mean	Minimum	Median	Maximum	Range
Iraqi Islamic bank	2016	2,390,542	-31,243,313	106,224	40,536,313	71,779,626
Iraqi Islamic bank	2017	-2,687,845	-27,287,435	-1,567,943	18,147,405	4,5434,840
Islamic national bank	2016	791	-54,744	-354	71,498	126,242
Islamic national bank	2017	-3,863	-93,302	-7	67,403	160,705

*Source: Researchers calculation

VI. CONCLUSIONS AND RECOMMENDATION

A. Conclusions

1. Islamic banks outperform commercial banks in terms of planning budget application because the majority of their statistical results are positive
2. The maximum outcome of implementing budgetary planning between banks (the study sample) was IQD 51,838,144 (a ratio of 31%) in 2016, in the Baghdad bank
3. The minimum result of implementing budgetary planning amongst banks (the study sample) was IQD -417,255,694 (a ratio of 43%) in 2016, in the Bank of Baghdad
4. The Iraqi Islamic Bank had the lowest result of applying budgetary planning between Islamic banks, with IQD -31,243,313 at a rate of 75% in 2016
5. The Iraqi Islamic Bank had the highest mean result among the banks (the study sample) in 2016, with IQD 2,390,542.40, due to good budget item implementation. The Bank of Baghdad had the lowest average result in 2016, with IQD -152,455,270
6. In 2016, the Iraqi Islamic Bank had the highest median result among the banks (the study sample) with an IQD of 106,224. In 2016 also, the Bank of Baghdad had the lowest performance, with a median of IQD -111,407,110
7. In 2016, Baghdad Bank had the highest range result among the banks (the study sample) with IQD 469,093,838. The range at Islamic national bank had the lowest result in 2016, with IQD of 126,242.

B. Recommendations

1. Ongoing auditing of accounting records and journals in Iraqi private banks, on a regular and periodic basis, to ensure that the budget objectives are met
2. Identifying budget deviations and implementing acceptable solutions through continual monitoring
3. The necessity of preparing well and clear budgetary planning to help implement the plan in a way Intact

4. The need for the administration to establish clear policies and processes for the proper implementation of the budget system
5. The need for Iraqi banks to make budgetary planning and declare it in annual reports because most Iraqi banks do not do so
6. The importance of involving all levels of the bank's administration in meetings and discussions held by senior management to prepare budgetary planning and accept initiatives and proposals made by participants.

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