

The impact of application of IAS 16 to determine capital adequacy Applied research in the Rasheed bank

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Abstract

The research aims to achieve the following studying, analysis and showing the accounting procedures followed by Rashed Bank and determining deficiencies in these accounting procedures as a result of non-compliance with the requirements of International Accounting Standard No. (16). Showing the impact of the application of International Accounting Standard No. (16) of the property, plant and equipment on the capital adequacy of the bank.

Hence the research problem is represented by the need for supporting the Capital of Rafidain and Rasheed banks, especially the bookends capital as the properties owned by banks are still recorded by their historical cost so that there is a big difference between the historical cost and fair value of these properties and the researcher relied on a hypothesis that the application of International Accounting standard, IAS (16) property, plant and equipment is one of the practical solutions to support the bookends capital of the research sample banks subjected to the financial restructuring, and then raising the capital adequacy. The researcher found that the application of IAS 16 has an impact on capital adequacy, and this is shown by the results in Rasheed Bank unlike the Rafidain Bank, that the capital adequacy ratio was not affected by the application of the standard because of the concentration of loans. The researcher has recommended the need for the application of international Accounting standard (16) of the sample research banks with the commitment of Rafidain bank to consider the long-term loans received in order to raise the capital adequacy.

Introduction

Financial sector, especially banking part is one of the most important joints of the economy which deal with savings and investment, and the most important activities is the cash credit (loans, banking facilities of all kinds), and must be a credit plans (cash and promissory) based on acceptable capital ratios, and funds savings (deposits, current accounts payable) as Basel focuses on the credit rating on the basis of capital adequacy to face credit risk.

Capital government banks in Iraq adequacy has become a problem not easy to solve. This is as a result of the existence of a large volume of bad assets in

the sample of the research budget items (Rafidain and Rasheed) that cannot be achievement at the present time. It has been awarded as a result of centralized decisions of the eighties and nineties of the last century, as well as foreign cash balances frozen during the period of the embargo on Iraq, and the cost of obtaining the historic estate owned Rafidain and Rasheed, which is much less than its fair value.

The first section

Research methodology and previous studies

1.1.1 Problem of Research

The capital is considered as the fundamental substrate of economic units in general, in the exercising main operational activity, for banks in particular. As banks work with funds of depositors through using them in lending and investments. Thus making them bear the banking risks, so capital becomes a guarantee for fulfilling commitments, and gives confidence to customers with banks.

Basel Committee (1) and (2) focused on capital adequacy as a protection system to face banking risks. Capital consists of two parts: main capital and supportive capital. Supportive Capital includes differences of properly revaluations, the percentage of unearned profits on the financial securities portfolio and the borrowed debt for five years and more (Al-Waqa'a Al-Iragiah, 4172.2011: 35).

Accordingly, the research problem can be formulated as follows:

The Iraqi governmental banks are faced with the need to support its capital in the light of financial restructuring, especially the supportive. Capital where the properties owned by the research sample banks are still restricted by cost, and there is a significant difference between the historical cost and fair value of these properties.

1-1-2- Objectives Research

The research aims to achieve the following:

1. studying, analysis and showing the accounting procedures followed by Rashed Bank and determining deficiencies in these accounting procedures as a result of non-compliance with the requirements of International Accounting Standard No. (16).
2. Showing the impact of the application of International Accounting Standard No. (16) of the property, plant and equipment on the capital adequacy of the bank.

1.1.3 Importance of Research

The importance of research is represented in two aspects:

The first aspect: is a theoretical approach to the International Accounting Standard (16) Property, plant and equipment, and the use of fair value in the evaluation of

intangible assets, and the relationship of recommendations of Basel Committee (1) and (2) with respect to capital adequacy.

The second aspect: is a special application to prepare financial statements in accordance with the fair value using the International Accounting Standard (16), as a practical contribution to provide a solution to support the supportive capital of Rasheed Bank and then raise the capital adequacy ratio under the financial restructuring.

1-1-4- Hypothesis of Research

The research starts to prove the following hypothesis:

The application of International Accounting Standard (16) Property, plant and equipment is one of the practical solutions to support the supportive capital of the research sample Rasheed Bank subjected to the financial restructuring, and then raise the capital adequacy.

1.1.5 - Method of Research

1. Theoretical Approach: Studying books, thesis and previous studies from English references to build a theoretical framework.

2. Applied Analytical Approach: by collecting and analyzing data related to the research sample and evaluating performance using the evaluation system (CAMELS).

1-1-6- The Scope

Time limits: Analyzing the financial statements of Rasheed Bank for the year 2014.

Spatial limits: The study was conducted in one of the major State-owned banks, that plays a prominent role in the banking sector.

The second section

The accounting perspective to the International Accounting Standard (16) property, plant and equipment

2.1.1 The historical perspective to the emergence of international accounting standards:

Before going into the nature of international accounting standards the historical development of international accounting standards, must be highlighted, even briefly which started in the first conference in 1904 in the United States. This conference sought to unify the accounting laws at the international level, and then was followed by several conferences through which a lot solutions were introduced in the presence of thousands of participants from different countries over the past 75 years of the last century. So, in 1972 it was agreed to establish the international Accounting standards committee (IASC), and in 1973, specifically in the 29th of June, the committee was established by an agreement between the largest national accounting bodies of (10)

independent foreign countries from the private sector. Another conference was arranged in 1974, in which the first standard was issued that is "A disclosure of accounting policies". Later, in 1988, the US Financial Accounting Standards Board (FASB) joined the Advisory Group membership, and in 1989 a report was released from the European Consultants Association indicating that the interests of European countries and companies to apply standards. In 2001 IASC was replaced by the International Accounting Standards Board (IASB), where this board published a series of publications called international reporting standards which include:

1. International Financial Reporting Standards (IFRS) (Reporting Standards) which amounted to (13) standards.
2. International Accounting Standards (IAS) (Accounting Standards) which amounted to (29) standards.
3. Interpretations. (Attia 2014: 15-21) and (juma'a 2015: 46)

2.1.2 Accounting Standards Concepts and Objectives

The concept of the standard where the standard is a "mutually agreed rule and a measure of everyone for their arrival to know something and accurately determine its merits" (Alshahada and Sulaihat,2015,38)

Also a standard is defined as "a model placed to measure weight length or degree of quality of one thing " (Mashkor,2013: 31).

While, the concept of accounting standard is defined as a " recognized model by measurement authority, and thus that the attempts of accounting standardization are attempts to standardize of accounting methods, and the used model for measurement will be the model or version authorized by the authority." (Abu Zeid, 2011 229).

And the accounting standards are also known as a group issued by the International Accounting Standards Committee (IASC). the goal of this committee is to develop group of internationally accepted accounting standards that will generate more comparable financial information across national borders by reducing, if not eliminating, the differences in the local generally accepted accounting principles acceptance in countries. (Ashbaugh: 2000))

Accordingly, it seems obvious that the accounting standards are rules or guides issued by the International Accounting Standards Board which aim to help financial statements users and investors, and show the accounting treatments of the components of the financial statements so that they are standardized and with an international consensus.

2-1-3- Objectives of the International Accounting Standards Board:

1. Developing and formulate and publish a set of accounting standards, which received high quality international acceptance viable and understanding through what information it contains is characterized by transparency and comparability of the financial statements to help participants in other capital users and markets to make economic decisions.

2. Achieve convergence between local standards and international accounting standards to gain access to high quality solutions.

3. Encourage the adoption of international accounting standards and the strict application of those standards.

4. Spread the standards are finalized in a series of International Financial Reporting Standards as published from 1-40 standard (2003: 7-8: Knief)

2-1-6- Genesis and evolution of the International Accounting Standard No. (16) Property and equipment and plants

Opinions differed about the genesis of the International Accounting Standard (16) and can chronology statement, as most of the studies suggest that the beginning originated this standard was in 1982, but after careful research in scientific aggregates historical development, especially Deloitte (Deloitte's IAS) of the International Accounting Standards and (MAPRA), found that the beginnings of the emergence or the first brick was in August 1980 under a draft accounting project on real property, equipment and factories address in the context of the historical cost system, as it was officially the emergence of a standard 16 by the international Accounting standards Committee in March 1982, accounting for real property, equipment and factories in force and began officially implemented starting January 1, 1983, and during the 1993 IAS issued 16 property and equipment and factories (amended as part of the project "comparability of the financial statements") adjustment has been made last on April 16 of 1998, in order to be consistent with IAS 22, the international accounting standard 36 and 37 the applicable effective for annual financial statements covering periods beginning on or after July 1, 1999. (<https://mpr.aub.uni-muenchen>))

In 2001 were canceled committee Accounting Standards (IASC) and was replaced by Accounting Standards Board in 2003 solutions Taatmhou his amended version of IAS 16 have been identified into effect in January 2005, has been another amendment of the standard between 2007 and 2008, and in recent years subsequent conducted several amendments concerning extinction accumulated under re-evaluation method where included with the standard 16 IAS 38 becomes effective for the period beginning on or after 1 Cannon the second 2016. (www.deloitte)

2-1-7- fixed assets (essence and importance)

The fixed assets are assets owned by the institution, not for the purpose of trafficking and Murabaha, but the right to use, a long-term assets is a stretch for a period exceeding financial year the company was able to achieve financial profits but productive life decreases with increasing use, it does not prevent the sale or replace it for the purpose of achieving utility services represented the largest received by the Company in use.

I knew Committee of the complex American Chartered Accountants terms in 1953, the definition of fixed assets as "something that represented a debit balance with the possibility of a shift to a future period when you close the accounting records in accordance with the rules or accounting principles provided that the debit balance is not a negative balance of any applicable required or discount), on the grounds that represents either the right of ownership or acquired value, or spending has been done and who created a property right or viable correctly in the future. (American Institute of Accounts: 1953: 13)

Also known as the probable future economic benefits obtained or controlled by the entity as a result of past transactions or events (188: 2004, Belkaoui).

It can defined as "economic resources of the entity that is recognized and measured in accordance with accounting principles generally accepted and includes some deferred burdens also Which not considered resources the but are recognized and measured in accordance with accounting principles generally accepted". (Paul, 2006: 205)

In order to be recognized as a fixed asset, it is to be the availability of the following characteristics: Keiso et al, 2011: 556))

1. Possession for the purpose of use in operations and not for resale.
2. It is long-term in nature and subject to extinction.
3. Tangible physical presence, fixed assetes feature material tangible and this is what distinguishes it from intangible assets such as patents or goodwill.

2-1-8- importance of fixed assets: Cong, 2011: 69))

The key element of the financial statements of assets, which gives a priority to the rest of the elements of financial statements, and the main reason behind the existence of a business, that is the acquisition and use of assets as well as depending the liabilities on them because the liabilities are obligations to pay or to provide assets, whereas fixed assets according to the International Accounting Standard No. (16) it has been defined as "the economic benefits expected to obtain in the future by an entity as a result of events or operations occurred in the past." (Hanan: 2006: 334)

2-1-12- Measurement of the cost of property, plant and equipment.

The cost of fixed assets is measured by the original cash price in the date of recognition and if the payment is postponed beyond normal credit terms, the difference between the cash price and the total price is recognized as interest over the credit period unless these shares are capitalized, according to IAS 23. IASB: 2010: 443))

2-1-13- Measurement after Recognition

After the initial recognition of an item of property, plant and equipment, a business should measure the assets using the cost model or the revaluation model. When the choice is made, this accounting treatment to an entire class of property, plant and equipment are applied.

1. Cost Model: It displays an asset in the accounting records in its cost, less depreciation and any accumulated impairment losses.

2. Revaluation Model: It displays as asset in the accounting records with its revalued amount, because it represents the fair value at the date of the revaluation less subsequent accumulated depreciation and accumulated impairment losses. The revised International Accounting Standard No. 16 explains that re-evaluation model is available only if the fair value of the item can be measured reliably. (Mirza et al: 2006: 88)

Cases of Revaluation

Usually the fair value of land and buildings are determined depending on the existing evidence on the market during the evaluation carried out by the professionally qualified evaluators. (IASB: 2010: 444)

When the re-evaluation of an item of property, plant and equipment is made, the recorded, amount of that item is adjusted to the revalued amount, and in the date of the revaluation the item is treated by one of the following ways:

(a) The total amount recorded is adjusted in a manner consistent with the re-evaluation of the carrying amount of the asset and this can be done by re-stating the recorded total amount and the carrying amount of the asset, after taking into account the subsequent accumulated value of impairment losses.

(b) The accumulated depreciation is excluded versus the recorded total amount of the asset (Arab Institute for Certified Accountants 2015: 890)

2-1-18- Disclosure

The Standard includes a long list of disclosure requirements which can be summarized as follows:

(a) Base of measurement to determine the total book value (if it is more than one basis, the carrying amount is adopted for that basis for each category).

(b) The adjustment of the book value at the beginning and end of the period to indicate the following, (ACCA, 2014: 66):

- (1) Additions.
- (2) Exclusion or sale cases.
- (3) Cases of acquisition through a business combination.
- (4) Increase / decrease cases during the period of the revaluation and value impairment losses.
- (5) Value impairment losses recognized in the profit or loss statement.
- (6) Value impairment losses reversed in the profit or loss statement.
- (7) Depreciation.
- (8) Net exchange differences (from translating the statements to a foreign party).
- (9) The amount of contractual commitments of acquiring property, plant and equipment, (IASB, 2010: 451).
 - (a) If the implementation is done by an independent evaluator.
 - (b) The revaluation surplus indicates the movement of the period and any restrictions on the balance distributions to shareholders. (Arab Institute for Certified Accountants: 2015: 897)

Capital Adequacy from the perspective of Basel (1) and (2)

Control Over Banking Risks

Many developed and underdeveloped countries, experiencing several financial crises, for many reasons of which the weakness in the economic structure, structural defect or as result of political or external beams factors, and as a result banking and financial institutions are affected significantly by these variables due to the sensitivity of their work. So as a result of the nature of the banking business or contingent changes are all pushed international financial organizations and international banks to focus attention on the role played by the control and supervision on the banking sector. Where the recent trends are represented in the effective oversight, including structure, scope and independence of banking control (Brath at el, 2002: 2) With the entry of the era of globalization, the safety of the international banking business has become an important and fundamental issue in the international banking market, especially with the great expansion in the movement of capital internationally by international banking lending operations and rapid internationalization of capital by multinational companies and this has resulted high risks for such a move of capital, so it has become a necessity to provide control procedures commensurate with those risks as well as the coordination and origination of the relevant national authorities for banking control activities in this direction (Alhameed, 2013: 279). In late 1980,

Basel Committee worked gradually by introducing ways to make banking control more effective where it sought to: (Resti & Sironi, 563: 2007)

1. Exchange of information on the monetary policy of each individual country.
2. Improve the supervision techniques on international banking activities.
3. Establishing the minimum level of regulatory standards.

2.2.3-Types of banking risks

1- Credit risk is a borrower's failure to pay or lack of commitment on the specified date.

2- Liquidity risk is an inability or difficulty in changing a certain assets quickly so that a loss can't be incurred

3. Operational Risks

This type of risks is associated with many relevant risks including: reputational risk, (legal and risks) as well as technological risks related to the risks of using technology. (Heffernan, 2005: 9).

4- Diversification Risks are to diversify the investment portfolio to reduce risk. (ElDesoki Ihab, 1999.200)

5. Market risks arise as a result of investment, therefore they are called investment risks.

2-2-4- Basel Committee standards and its recommendations

2-2-4-1- Basel standards I

Basel Committee emerged into existence without being the result of an agreement or an international treaty and gained its name from the Swiss city of Basel, where its headquarters is located, as a result of the crises and the failure of some central banks such banks as (Bank hausHerstatt and Franklin National Bank). These have resulted in the formation of a permanent committee of banking authorities of a group of ten countries as well as Luxembourg and Switzerland, as was the establishment of Basel, where member meetings have been organized every three months (Heffernan, 2005: 180)

The Basel Committee began to address market risks in a consulting document in 1993 and it was modified in 1996 as it introduced market risk within the Basel standards I which was applied by banks in 1998 (Heffernan, 2005: 186) These modifications helped to strengthen the soundness of the international banking system stability and support the competitive equality between banks (Al-Shammari 2013: 82)

2-2-4-2- Basel standards II

In 1999, the Basel Committee on Banking Supervision, made several proposals to reconsider the Basel standards I, issued in 1988 resulted in the issuance of the

standard Basel standards II, as was the introduction of the new rules at the beginning of 2004 (Frederic, 2013: 240) represented by the following substrates: (John at el, 2007: 624) (Capital Requirements, Supervisory Review, Market Discipline) (John at el, 2007: 625)

2-2-4-3- Basel standards III

Despite the issuance of the (Basel standards II), but it encountered slow implementation when it was applied, and during a second global crisis in 2007-2008 mortgages crisis that led to the bankruptcy of many international banks and the short comings became obvious in (Basel standards II). Therefore, the standard has faced severe criticisms, and in turn this has made the Committee to reconsider the revision of Basel standards II (Moenjak, 2014: 241)

In December 2009 the initial proposal of Basel III was issued where the committee made some modifications, which included: (Peruggink, 2010: 6) (Capital, Liquidity Requirements, Lending, Financial Leverage, Risk Coverage).

2-2-7- Banking evaluation system

In 1979 the United States of America adopted a uniform system for evaluating banks using the evaluation system CAMELS where the regulatory authorities were the first to put forward a display method within the location of banking institution. This system is used in the evaluation of the examiner to the results of field examination of the bank under a regulatory certain standards. This system is used by regulatory and supervisory parties represented by the Federal Reserve System (FRS) the office of currency control (OCC) and the Federal Deposits Insurance Corporation (FDIC) for working on banking risk assessment. (Paul &RanJana, 2000: 7). After the collapses suffered by the banks in 1933 and the collapse of 4000 banks and the other collapse, and in 1988 that led 221 banks to fail.

In 1996, the system has been developed to reflect the changes in the banking system and control bodies, as this system consists of five indicators (Paul &Ranjan, 2000: 8).

2-2-7-1-Capital Adequacy

Solvency is defined as "the likelihood that bank could face insolvency, to meet its liabilities, ie, with an inverse relationship between solvency and this likelihood. (Greenspan, 1998).

Perhaps at first glance some people think that the term "solvency" indicates the adequacy concept, but when looking at the Economic literature it can be seen that the solvency concept is broader and more general than the adequacy concept that refers to the expected rate of return, measured by the following formula: (mehdi Mili, 2014,6)

$$\text{CAR} = \frac{\text{Tier One Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}}$$

2-2-7-2-Quality of Assets

Quality of Asset reflects the bank's ability to generate more income and better evaluation because the customers tend to acquire the assets of that bank and thus achieve significant revenues (Classification Guide according to CAMELS System, Central Bank Of Iraq :18). To measure the quality of assets by CAMELS (Camels Bank Rating System, Update 12/6/2008). The weighted classification ratio (WCR) is calculated by dividing the total provisions / equity plus provisions, as well as calculating the total classification ratio (TCR) by dividing non-performing loans to equity plus provisions.

2-2-7-3- Management

It is basically the board's ability and management to identify, measure and control the risks for the activities of the bank and the confirmation that its operations are managed securely and properly and to comply with its laws and regulations in force. Management component is classified on capacity and performance of management and board of directors about (governance, human resources, monitoring and auditing, information systems, strategic planning) (Lorraine, 2011: CAMELS RATINGS: What They Mean and Why They Matter)

2-2-7-4- Earning

Earnings are classified according to several factors, such as the level of Earnings, including the direction and stability, the level of expenditures in relation to the activities of the bank as well as the quality and sources of revenues.

2-2-7-5-Liquidity

The liquidity is considered the ability to convert financial assets into cash and when classifying liquidity must take into account the adequacy of liquid assets to meet the demand for loans from deposits, and the presence of a quick liquidity assets as well as the ability to access the money markets (Classification Guide For CAMELS System.2013: 30)

2-2-7-6- The sensitivity of market risks

This sensitivity is mainly related to the investment portfolios arising from fluctuations in the general level of prices, including the prices of financial assets, which could adversely affect the financial institution earnings or economic capital (Classification Guide For CAMELS Central, Bank of Iraq: 34)

Axis III: Rasheed Bank

3.1 Outline of Rasheed Bank:

Rasheed Bank is considered the second largest state bank after Rafidan Bank, where the roots of its foundation dated back to 1988 under Law No.(52) and later became a public company under the Companies Law No.(22) of 1997. The bank is subject to the laws and regulations issued by the Central Bank of Iraq and the Federal Supreme Audit Board and administratively to the Iraqi Ministry of Finance. The bank provided throughout its 28-years tender career continuous, clear fingerprints and influential decisions on the level of the Iraqi economy and its aspirations for the future through its branches network inside Iraq and a number of its corresponding banks outside Iraq so as to enhance its position as one of the leading banks in Iraq and the region. (Union of Arab banks No. 423, 2016: 32)

The purpose of the establishment of this bank in 1988, is to enable Rafidain Bank to face the external debt problems (Al-Bayan Economic Magazine Issue 482, 2012: 196).

Where the bank has emerged from Rafidain Bank and started to initiate its work by the branches moved from Rafidain Bank (Rafidain Bank website)

The work of governmental banks in the nineties was limited to provide local services due to the presence of international economic sanctions imposed on the country which affected the lack of conditions for banks and allow them to form an international relations (Al-Bayan Economic Magazine Issue 482, 2012: 196)

Rasheed Bank aims to support the national economy over the functions it performs which are represented by the commercial banking and its investment of funds. Also, it provides funds to various sectors in accordance with the development plans and banking services in the field of external and internal transactions represented by current accounts, fixed deposits, various loans in dinars and dollars and credit facilities as well. The bank services for fixed deposits are limited to the population of the geographical area in which the bank is located. The bank has formed developed and distinct external working relationships represented by work agreements with the commercial Bank of Syria and Turkish Agricultural Bank. A guidance by the management of the Bank has been made to writing to the corresponding banks in Turkey, China and Germany to re-store banking relations and activating then where that work is continuing to restore relations with the US, French and German banks. (Observer Magazine special annual issue 2012: 120)

3-2 Evaluation of Rasheed Bank Performance

1. Capital adequacy standard: this can be identified by the total supportive and main capital through following table:

Table (1): Total Supportive Capital of Rashed Bank

No.	Main Capital	Amounts in thousands
1	Paid-in Capital	500,000,000
2	Provisions	54,301,127
3	Retained Earnings earned in prevision years	61,485,000
Less	Net Contributions in banks and Financial institutions	20,171,378
	Total	145,614,749

Prepared by the researcher based on the financial data of the Federal Supreme Audit Board related to Rasheed Bank

The main capital represents the paid-in capital and provisions and retained Earnings in previous years, minus the net contributions which the bank contributes in financial institutions and banks. This what is continued in the instructions to facilitate the implementation of the banks Law No.(94) for the year 2004 published in the Al-Waqa'a Al-Iraqiah number 4172 for the year 2011, p. 35 The gross profit and loss for the current year amounts to 46,971,822 billion Iraqi dinars.

The supportive capital represents long-term loans received according to the instructions to facilitating the implementation of Banks Law No. (94) for the year 2004 in Article (19), paragraph III - c where the loan balance was (zero) and profits (losses) realized in the current year, provided that the supportive capital does not exceed 100% of the main capital, where the total supportive capital reached (46,971,822) billion Iraqi dinars.

Table (2): Risk-weighted assets within the balance sheet (Amounts in thousands)

Explanation	Amount	Weight percentage	Risk weighted asset value
Cash (in treasury and banks)	8,059,164,277	0	0
Financial investments for various sectors	1,822,580,650	0	0

Discounted notes receivable and sold	828,431,934	%50	414,215,967
Loans and Advances	6,020,542,343	%50	3,010,271,171
Accounts receivable	3,889,855,451	%50	1,944,927,725
None current Assets	64,275,373	%100	64,275,373
Total			5,433,690,236

Prepared by the researcher based on the financial data of the Federal Supreme Audit Board related to Rasheed Bank

(Table 3) : Risk-weighted assets outside the Off-Balance sheet amounts in thousands

Explanation	Amount	Weighted percentage	Risk weighted asset value
Issued Documentary Credit	14,520,042	%20	29,040,084
Issued Letters of Guarantee	2,130,166	%50	1,065,083
Accepted foreign remittances and Credit payment operations	12,045,526	%100	12,045,526
Total			42,150,693

Prepared by the researcher based on the financial data of the Federal Supreme Audit Board related to Rasheed Bank

Capital adequacy standard = $\frac{\text{Main capital} + \text{Supportive capital}}{\text{Risk-weighted assets within balance sheet} + \text{Risk-weighted assets off balance sheet}} * 100$

$$= \frac{192586571}{5475840929} * 100$$

$$= 3.5\%$$

The result shows that the capital adequacy ratio amounted to (3.5%) so this ratio does not correspond with what was approved by the Basel Committee that the ratio should be 8% as approved by the Central Bank instructions in the classification guide of banks according to CAMELS system that the bank keeps its capital commensurate with the nature and the amount of risk of the bank and that the ratio is (12%). Where the ratio showed that the bank did not maintain adequate capital to face the losses, which falls in the low levels of classification for capital adequacy due to a lack of

capital and the supportive capital represented by of long-term loans received was (0), which must be 50% of main capital

Where this level is characterized by the following:

1. The bank is facing severe problems due to lack of capital to meet the commitments of business banking operations.
2. The size of net toxic assets to the bank's capital and proper provisions was high.
3. Lack of commitment to the capital requirements issued by the Iraqi Central Bank.

The required control procedures are:

- The Board of Directors of the Bank and its executive management should perform immediate action to correct the imbalances to avoid access to a state of bankruptcy.
- A direct and powerful supervision by the Central Bank of Iraq is required to ensure that the Board of Directors of the Bank and its executive management take appropriate measures to improve the ratios relating to capital adequacy.

2. Asset quality: Relying on the ratios existent in the appendices the asset quality element can be extracted from the following two equations:

$$1. WCR = \frac{\text{Provisions}}{\text{Owner equity} + \text{Provisions}} * 100$$

$$2. TCR = \frac{\text{non-performing loans}}{\text{Owner equity} + \text{Provisions}} * 100$$

Extract the equation data for (WCR)

Table (4): Required WCR data

No.	Explanation	Amounts in thousands
1	Owners Equity	104,301,127
2	Allowance for uncollectable accounts	66,302,616
	Total	170,603,743

Prepared by the researcher based on the financial data of the Federal Supreme Audit Board related to Rasheed Bank

Extract data for the equation of (TCR)

Table 5: Required TCR data

Explanation	Amount in thousands
Debtors of late payment debts including non-performing loans	23,897,553
Total	23,897,553

Prepared by the researcher depending on the financial data of the Federal Supreme Audit Board related to Rasheed Bank

WCR= 38% Level I

TCR = 14% Level IV

Average of WCR and TCR = (Level I + Level IV) \ 2 = 2.5

The average of WCR and TCR shows that the quality of assets are located between the second and third level, where these two levels are characterized by a set of attributes that can be mentioned by the following:

1. The size of net toxic assets to the bank's capital and its proper provisions is average.
2. A high level of accruals and scheduled credit.
3. The level of provisions allocated versus non-productive credit for returns is not enough.
4. There is a significant weakness in the standards of granting credit and the required procedures to follow-up and collect the accruals.
5. The application of policies and procedures relating to credit and investment is made partially.

The required control procedures are the strong control by the central bank to ensure that the Board of Directors of the Bank and its executive management take immediate steps to rectify the matter, study the weaknesses and correct the defects that affect the quality of assets.

3. Earnings:

This component can be calculated through the following two equations:

1. Return on Assets (ROA) = Net profit / Assets * 100

2. Return on Average Assets (ROAA) = Net Profit / Average Assets * 100

Table (6) shows the extracted data of Return on Assets (ROA) of Rasheed bank.

Table (6): Return on Assets Data of Rasheed bank

Explanation	Amount in thousand
Net Profit	41,451,587
Total Assets	20,689,454,663

Prepared by the researcher based on the financial data of the Federal Supreme Audit Board related to Rasheed Bank

Table (7) shows the extracted data of Return on Assets (ROAA) of Rasheed bank.

Table (7): Return on Assets Data of Rasheed bank

Explanation	Amount in thousand
Net profit	41,451,578
Total Assets for 2013	21,619,405,665
Total Assets for 2014	20,689,454,663

Prepared by the researcher based on the financial data of the Office of Financial Supervision own bank Rasheed

ROA = 0.2% Level IV

Average Assets = (Total assets for 2013 + Total assets for 2014) \ 2
 = 21154430164 Trillion Iraqi Dinar

ROAA = 0.19% level V

Average ROA and ROAA = (level VI+ level V) \ 2
 = 4.5

From the results that appeared to the quality assets component where the ratio was (4.5), which falls under the fourth and fifth levels. These two levels are characterized by the following:

1. The bank experiences severe problems in the Earning and the net operating profit may be positive but not sufficient to form the required allowances and strengthen the required the provisions for the growth of required capital.
2. Failure to take immediate corrective action may lead to the occurrence of future losses which threaten the solvency of the bank.

The required control procedures represent the need for the Bank's Board of directors and executive management to perform immediate action to correct the imbalances to prevent access to the case of insolvency, as well as the central bank performs strong and ongoing monitoring to take strong and appropriate corrective action in order to correct the bank's situation and follow up their implementation on an ongoing basis to strengthen the situation and provide the necessary protection for the money for depositors and lenders.

4. Liquidity: according to table (8) that showed the liquidity data that form the base of the following equation by which the liquidity element is evaluated.

Liquidity= Loans / Deposits * 100

Table (8): Liquidity data of Rashed bank

Explanation	Amount in thousand
Loans	6,020,542,343
Deposits	18,330,810,025

Prepared by the researcher based on the financial data of the Court of special financial control Rafidain Bank

Liquidity = 32%

This result indicates that the liquidity index is in the first level. This ratio shows that there is a thorough understanding by management of Rasheed bank regarding the structure and composition of the assets and liabilities elements and the economic environment, as well as the availability of liquid assets to meet withdrawals on deposits and demand for credit in addition to any unexpected withdrawals, and that there is limited dependence on borrowing operations between banks to fund liquidity needs.

The aggregate classification of Rasheed Bank is the sum of classification ratings of each element divided by the number of elements of the evaluation system

Table (9): Aggregate rating of Rasheed Bank

Elements of Evaluation system	Classification Rating
Capital Adequacy	5
Assets Quality	2.5
Earnings	4.5
Liquidity	1
Total	13
Aggregate Classification	3.25

The table prepared by the researcher

By the total aggregate classification of Rasheed Bank which amounted to (3.25), this is located between the third and fourth level, where these two levels are characterized by the following important characteristics:

1. This bank needs a strong and consistent control intervention by the Central Bank of Iraq, through an agreement on appropriate corrective actions which ensure that the Bank's Board of Directors and its executive management correct the situation.
2. Obtaining this aggregate classification by Rafidain bank indicates that that the bank is in a serious and critical condition, so that the bank does not apply robust and safe practices as well as existing financial and administrative deficit that has led to this poor performance. The assets quality of the bank is very low where the size of net toxic asset constitute a high proportion of the bank's capital and prober reserves, which threaten significant losses occurrence that may affect the continuity of its work as well as that the risk management of the bank is very weak.

3. The financial solvency of the Rafidain Bank and the continuity of its works is considered threatened significantly in the absence of central bank intervention to take immediate and due corrective actions and follow up the implementation of these procedures on an ongoing basis.

-3-3-2-Application of International Accounting Standard (16) in Rasheed Bank

Table (10): List of the buildings occupied by the General Administration of Rasheed Bank

No.	Building name	Location	Total area	Building area	Number of Floors
1	Main Branch	Banks street Near Al-Nahar street	995.12 m ²	7.462 m ²	5
2	Previous Building for general administration	Al-Khulfa'a street near Al-Maidan square	1018 m ²	19356 m ²	9
3	Commercial Branch	Banks street Near Al-Nahar street	586 m ²	2730 m ²	8
4	Al-Wathba	Saba'a Abkar Hafiz Al-Qadhi	1,118.72 m ²	3,525 m ²	2
5	Batawin Stores	The Branch Opposite Babil Cinema	974 m ²	465 m ²	2
6	Jamela Stores	Alawi District Jamela Opposite Electricity Station	1,479 m ²	2م 358	3

Prepared by the researcher based on the data provided by the Federal Supreme Audit Board related to Rasheed Bank of the revalued buildings

The table below shows the revalued buildings at fair value

Table (11) : Rasheed Bank's buildings revalued at fair value

No.	Buildings	Fair Value Amount in thousand
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1	Main Branch	17,413,200,000
2	Previous Building for General Administration	23,752,080,000
3	Commercial Branch	8,590,000,000
4	Al-Wathba	12,752,861,000
5	Bataween Stores	6,192,750,000
6	Jameela Stores	8,429,850,000
	Total	77,130,741,000

Prepared by the researcher based on the valuation of experts.

By looking at the fixed assets of land and buildings in the balance sheet where the total land and net buildings after deducting depreciation amount per thousand was (61,112,564) dinar, while the total land and buildings for the main public administration which were (6) buildings amount in thousand (77,130,741) dinar exceeds the amount of the net fixed assets of the total buildings of the public administration and branches distributed to the provinces of Iraq. Due to the lack of access to the historical cost of main buildings and their accumulated depreciation, the researcher has compared the amount of the evaluation with the net value of land and building for Rasheed Bank, and he also prepared a balance sheet included revalued fixed assets and the rest of the fixed assets book value where the difference between the book value and the fair value of the total land and buildings was only (16,018,176) thousand dinars where this difference is subject to 50% of its value in accordance with instructions to facilitate the implementation of the banking law No. (94) for the year (2004), Article (19), paragraph III-c on page (35) mentioned previously in the Al-Waqa'a Al-Iraqia differences of re-evaluation of real estate, where the total differences of re-evaluation of properties after deducting a 50% reached (8,009,088,000) thousand dinars, while the mechanism for calculating the figure, which is placed in the virtual balance sheet were as follows:

The fair value of the properties = 77,130,741,000 thousand dinars

The book value of the properties = 61,112,564,000 thousand dinars

The difference = 16,018,176,000 thousand dinars after deducting 50%

Revaluation reserves = 8,009,088,000 thousand dinars is added to the net book value of the properties.

The amount appeared in the virtual balance sheet = 69,121,652,000 thousand dinars

The virtual balance sheet of the Rasheed Bank after the application of IAS 16 as at 31/12/2014

Assets

Cash in Hands & Banks	8,059,164,227,727
Investment	1,822,580,650,408

Total 9,881,744,878,135

Monetary Credit

Discounted commercial papers	828,431,934,434
Alambtaah	
Loans and Advances	6,020,542,343,998
	6,848,974,278,432

Debtors	3,889,855,451,978
Fixed Assets (fiar v)	69,121,652,860
Other fixed assets after deducting depreciation	3,162,808,316
	3,962,139,913,154

Sum Assets 20,692,859,069,721

Counterparties accounts

Customers to encounter banking operations	4,604,681,752
Commitments (after deducting insurances) to her return	
	<u>20,697,463,751,473</u>

Liabilities

Current liabilities

Current A/C & Deposits	18,330,810,025,167
Received short-term loans / external world	42,298,564,397
Creditors	2,207,440,264,839
Total Current liabilities	20,580,548,854,403

Fixed liabilities

Received loans for long-term external world	0
Re-evaluation of reserves assets	8,009,088,139
paid Capital	50,000,000,000
Reserves	54,301,127,179
Total Fixed liabilities	112,310,215,318
Total liabilities	20,692,859,069,721

Counterparties accounts

The bank to meet with commitments
banking operations (after deducting insurances)
to her return

4,604,681,752

20,697,463,751,473

Prepared by the researcher based on the data provided by the Federal Supreme Audit Board related to Rasheed Bank and experts.

3-3- Evaluating the performance of Rasheed Bank after the application of International Accounting Standard (16)

1. Capital adequacy

To calculate capital adequacy only the amount of re-evaluation reserves (8,009,088) thousand dinars is added to the table (15) related to the supportive capital together with the amount of the risk weighted assets within the balance sheet in the table (16), where the total of fixed assets becomes (72,284,460,000) thousand dinars where replaces the amount (64,275,373,000) thousand dinars, and the risk-weighted assets off the balance sheet remained as they are in accordance in the table (17), with a total (42,150,693,000) thousand dinars, The table below shows the changes that have taken place in the supportive capital.

Table (12): Changes that have taken place on supportive capital

Supportive Capital	Amount in thousands
Long-Term Received Loads	0
Profit (loss) realized in previous years	61,485,000
Re-evaluation reserves of fixed assets (properties)	8,009,088
Total	69,494,088

Prepared by the researcher based on the data of Fedral Supreme Audit Board related to Rafidain Bank

The researcher wanted from the above table to show the effect of IAS 16 on capital adequacy equation as the revaluation of fixed assets has the effect on the numerator of the equation related to the supportive capital as well as its effect on the denominator of the equation related to the risk-weighted assets in the balance sheet,

while the main capital remains as it is without any change as can be seen in table (14) with a total (145,614,749,000) thousand dinars.

The data for the numerator and denominator of the capital adequacy equation is as follows:

Numerator = 215,108,837,000 thousand dinars, resulted from the total of main capital and supportive capital

Table (13): Changes that have taken place on the nominator and denominator of the capital adequacy equation after applying IAS16

The denominator	Amounts in thousands
Risk-weighted assets in the balance sheet	5,441,699,323
Risk-weighted Assets off balance sheet	42,150,693
Total	5,483,850,016

Prepared by the researcher

$$\text{Capital adequacy} = 215,108,837 / 5,483,850,016$$

$$= 3.9\%$$

After applying the IAS16 the ratio became (3.9) compared to the state prior to the application of the standard, where the ratio was (3.5) This result supports the hypothesis that the application of IAS (16), is one of the practical solutions to enhance the supportive capital for the research sample, Rasheed Bank The capital adequacy ratio was raised in a higher rate compared to the state prior to the application of the standard.

Consequently, it is clear that re-evaluating the six main buildings of general administration buildings have had a clear impact on raising capital adequacy so that the hypothesis is proved entirely beyond doubt if the buildings belonged to the general administration, including all branches distributed all over Iraq were re-evaluated, Thus, the standard of capital adequacy will exceed the prescribed ratio of Basel Committee (8%) to reach the required ratio recommended by the Central Bank of Iraq (12%) or higher.

2. Asset Quality: The ratio remains the same because the two equations were not affected. By using these two equations the classification rating of asset quality was (2.5%), located between the second level and third level as well as the features that characterized the levels remain the same as previously indicated in the element of quality of assets before the application of the standard.

3. Earning:

The requirements of Return on Assets (ROA) and Return on Average Assets (ROAA) will be calculated as shown below:

Table (14): Return on assets data of Rasheed bank after applying IAS16

Explanation	Amount in thousand dinars
Net Profit	41,451,587
Total Assets	20,697,463,751

Prepared by the Researcher

Table (15): Return on average assets data of Rasheed bank after applying IAS16

Explanation	Amount in thousand dinners
Net profit	41,451,587
Total Assets for 2013	21,619,405,665
Total Assets for 2014	20,697,463,751

Prepared by the Researcher

$$ROA = \frac{41,451,587}{20,697,463,751}$$

$$= 0.2\% \text{ (Level VI)}$$

$$\text{Average assets} = \frac{(21,619,405,665 + 20,697,463,751)}{2}$$

$$= 21,158,434,708 \text{ (in thousand dinars)}$$

$$ROAA = \frac{41,451,587}{21,158,434,708}$$

$$= 0.19\% \text{ (Level V)}$$

$$\text{Average ROA and ROAA} = \frac{9}{2} = 4,5\%$$

The evaluation Results of asset quality component amounted to (4.5%), where this ratio is located between the fourth and fifth levels. These two levels are characterized by the following:

1. The bank experiences severe problems in respect with earnings and the net operating profit may be positive but not adequate to form the provisions required and strengthen the necessary reserves for the growth of the required capital.
2. Failure to take immediate corrective action may lead to the occurrence of future losses in a form threatening the solvency of the bank.

The required control procedures is through performing the Central Bank of Iraq continuing and strong monitoring by taking strong and appropriate corrective actions in order to correct the situations of the bank and follow up their implementation on an ongoing basis to strengthen the situations and provide the necessary for the depositors and lenders funds protection.

4. Liquidity:

The ratio remains the same as before the application of the standard because the equation used to calculate the rating degree of liquidity, is not affected.

Table (16): Aggregate Rating of Rasheed Bank

Evaluation system elements	Rating degree
Capital Adequacy	5
Assets Quality	2.5
Earnings	4.5
Liquidity	1
Total	13
Aggregate Rating	3.25

Prepared by the Researcher

Although the International Accounting Standard (16) is applied but the aggregate rating has not changed compared to the aggregate rating (3.25), that appeared before the application of the standard, It can be said about this result that the re-evaluation of properties which belong to the general administration will affect the adequacy of capital and thus the Rasheed Bank will get lower aggregate rating level because of the high degree of rating that approached the level of the best evaluation.

Conclusions:

The researcher reached a set of important conclusions of which are:

1. The controversy and contrast have increased between the adoption of the historical cost and fair value approaches in the evaluation of assets, and the impact of the faithful representation of the financial statements.
2. The fair value approach is in line with the future performance and leads to the relevant accounting information to the users of financial statements in the investment decision-making.
3. The application of international accounting standards, including the International Accounting Standard (16) allows using the present value of the measurement of fixed assets, which is in line with the requirements of the users of financial statements and future performance.
4. The banks are considered important financial institutions for the national economy and their factors of success and continuity is to monitor their performance through the application of the credit rating system according to the guidance of the Basel Committee (1) and (2).
5. Banks face many risks, including (cash credit, liquidity, capital) and to evaluate the efficiency of banks in facing these risks need a high level of capital adequacy.

6. The capital of banks is classified for the purposes of capital adequacy indicator to the paid-in capital and supportive capital, which represents (long-term loans, revaluation of assets reserve).
7. The application of International Accounting Standard (16) Property, plant and equipment allows using the fair value, and this includes the re-evaluation of assets and then find the supportive capital, and therefore the application of capital adequacy.
8. The applications of IAS (16) revealed accounting information more relevant to future performance, and the application of the capital adequacy indicator for the research sample to Rasheed Bank, as follows:

A. Rasheed Bank's response to the International Accounting Standard (16) on the capital adequacy indicator where the hypothesis is proven that the application of International Accounting Standard (16) is one of the practical solutions to support the supportive capital where it was noted that the ratio of capital adequacy indicator has increased from 3.5 to 3.9.

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