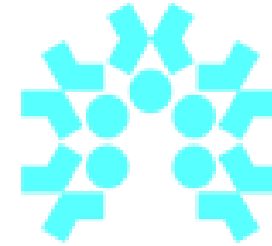


انجمن مالی اسلامی ایران
Iranian Association of Islamic Finance



Islamic Accounting Challenges

Prepared by

Dr. A. Ramrouz

- What is Islamic Accounting?
- Does it really exist?
- Is it really essential?

Zakat

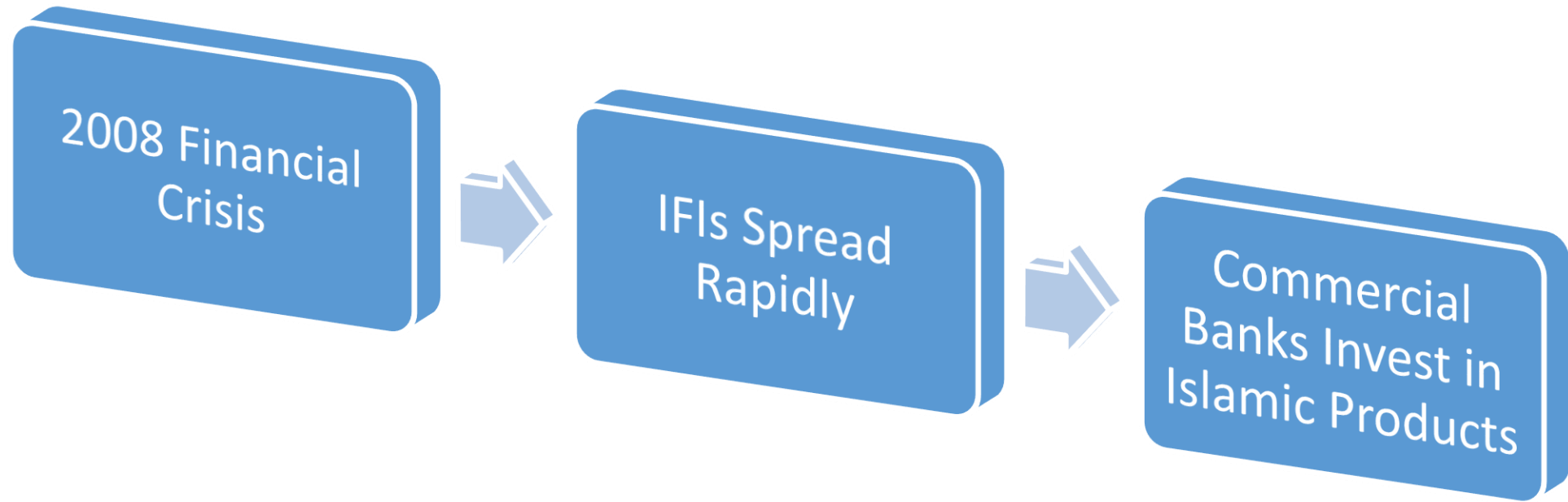


*Prohibition
of Riba*



*Economic
Justice*

Is Islamic Accounting a global matter?



Do IFRS standards provide sufficient guidelines for Islamic transaction?

IFRS are set by
IASB

IASB`s
members are
not skilled in
Islamic finance

IFRS do not
include Islamic
Accounting
Guidelines

What have Islamic banks and scholars done to solve the problem?

Accounting and
Auditing Organization
for Islamic Financial
Institutions (AAOIFI)

Malaysian Accounting
Standards Board
(MASB)

Asian-Oceanian
Standard Setting
Group (AOSSG)

Deloitte Islamic
Finance Knowledge
Center

First Approach: A separate set of Islamic Accounting Standards - AAOIFI



Outcomes of first approach



AAOIFI
ACCOUNTING AND AUDITING ORGANIZATION
FOR ISLAMIC FINANCIAL INSTITUTIONS

Strengths:

-26 Financial Accounting Standards (FAS)

Weaknesses:

- FASs are not generally accepted in Islamic countries
- FASs are not comprehensive enough
- FASs should be studied further in both accounting & juridical aspects

Second Approach, Islamic accounting issues should be included in IFRSs – MASB



Outcomes of second approach



IASB

Strengths:

Establishing Islamic
Finance Consultative
Group

Weaknesses:

- Lack of practical outcomes
- The members of the Board and the IFRS IC are not skilled in the analysis of Islamic products

What we have now:

***IFRS:**
Do not include
Islamic
guidelines*

***FAS:**
Are not
sufficient*

Islamic accounting challenges:



Fundamental

- Challenges related to accounting objectives, concepts, identification, measurement, presentation & disclosure (More general ones)



Practical

- Challenges that are related to the accounting procedures and records

- Key concepts that are accepted by IFRS & MASB while rejected by AAOIFI:

Time Value of Money & Substance Over Form

In 2001, a bank buys a house at RM500,000 and sells it to the customer at RM696,650. The customer pays in monthly instalments over a period of 10 years. In 2003, the customer misses an instalment but pays the amount in 2004. Below are the possible ways that the bank could recognise and measure income over the 10 years.

| | Under AAOIFI standards | | Under IFRS |
|---------------------------------------|---|---|--|
| Relevant paragraph(s) | FAS 2, paragraph 2/4/2 (a) | FAS 2, paragraph 2/4/2 (b) | IAS 18, paragraphs 11, 29, 30 IAS 39, paragraphs 9, AG5-AG8 |
| Requirement | Proportionate allocation of profits over period of credit | Profits recognised as and when instalments are received | Difference between fair value and nominal amount of consideration recognised as interest revenue ... in accordance with IAS 39 |
| | RM | RM | RM |
| 2001 | 19,665 | 19,665 | 33,866 |
| 2002 | 19,665 | 19,665 | 31,278 |
| 2003 | 19,665 | 18,026 | 28,503 |
| 2004 | 19,665 | 21,304 | 25,527 |
| 2005 | 19,665 | 19,665 | 22,337 |
| 2006 | 19,665 | 19,665 | 18,915 |
| 2007 | 19,665 | 19,665 | 15,247 |
| 2008 | 19,665 | 19,665 | 11,313 |
| 2009 | 19,665 | 19,665 | 7,094 |
| 2010 | 19,665 | 19,665 | 2,571 |
| Total profit / interest income | 196,650 | 196,650 | 196,650 |

Substance Over Form

- MASB and IFRS emphasis on substance over form
- AAOIFI requires all ijarah to be treated as operating leases and not recognize a lease liability

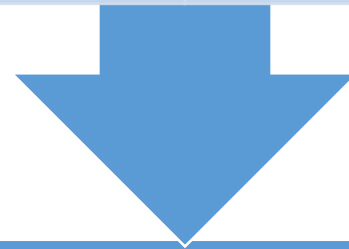
Measurement

- Fair value measurement has been emphasized by IFRS.
- How measurement is practiced within IFIs?

URIA Presentation

IFRS & MASB

As liabilities



AAOIFI

Between liability & equity

- 3 financial statements that are required by AAOIFI but are not common in IFRS:

Statements of changes in restricted investment accounts

Statement of sources and uses of funds in the Qard/ Hassan and charity funds

Statement of sources and uses of funds in the zakat funds



*Thank
you*

