ISLAMIC ACCOUNTING STANDARDS VS INTERNATIONAL FINANCIAL REPORTING STANDARDS

Mohammad Haroun Sharairi, Al Ain University

ABSTRACT

Proposed paper aimed to express the uniqueness of both Islamic Accounting and Financial Reporting Standards. The study aimed to make a significant comparative work by considering key aspects. Islamic Accounting Standards is backed by Auditing Organization for Islamic Financial Institutions (AAOIFI). The presented research work was intended to mainly focus to identify which system is recommended for user in the UAE. The survey was carried out by considering detailed information from the respondent’s cross various research questionnaire. The strategy involved for gathering the data was by means of complete professional documents and there by preforming a well-defined set of questionnaires. These contents helped to make better survey by integrating financial institutions in the UAE. This work can be of significant importance which relates to (IFRS International Financial Reporting Standards), since it signifies few of the critical issues of the society such Riba and Zakat with respect to interest. The concept here it to inductee the communication with each other, due to the prolong era of new generation, improved accounting system has developed variety of ideological and mid set. In addition, these reporting standards promote the global implications which are much ahead of jurisdictions.

Keywords: Islamic Accounting, Islamic Financial Institutions, Financial Reporting Standards, Shariah.

INTRODUCTION

Literature study from decades has indicated the importance of accounting standards for Islamic financial institutions. Many aspects of the work have been reported including objectives, characteristics as well as ethics orientated. In addition, importance was also given to social responsibilities of AAOIFI accounting standards. According to Maurer (2002) made a clear understanding of theneed for reliable secretarial standards for Islamic business originalities. The intension was to showcase on the need for standardization in the financial reporting practices. Maine area of to implement on the Islamic business organizations as well as Islamic financial organizations. The way of approach from AAOIFI and IFRS varied significant form one another (Pamuncak et al., 2018). As a global accounting system, IFRS has crosscutting requirements that do not rely on any religious ideology but rather on professional practice. On the other side, AAOIFI follows the sharia while addressing any accounting issue. Some of the products that are addressed within the sharia to be done by every Islamic financial institution include; mudharabah, murabaha, Ijara, Musharakah, Bai al Salam, Ijara wa iktina, and Istisna (Pamuncak et al., 2018). Failure to provide these products, an institution is not regarded as an Islamic institution. In 2017, Ajili & Bouri investigated on the levels of disclosing information between AAOIFI and IFRS. The study was made on thirty nine countries within the Gulf Cooperation
Council from 2010 to 2014. The analysis made using the unweighted disclosure index revealed that most of the banks in the region complied with the information disclosure system of IFRS compared to AAOIFI. However, research made by Al-Sulaiti et al. (2018) on disclosure of information procedures in Bahrain and Qatar and the findings show that most parts of these countries use the AAOIFI information disclosure systems more than the system of IFRS. However, most studies support the use of IFRS accounting standard as it discloses information and its performance is at international level. In the current generation, most of the countries across the globe have resorted to IFRS due to the fact that all the information is disclosed to users without attachment of restrictions unlike in the AAOIFI standards of accounting (Pamuncak et al., 2018). Additionally, the IFRS recently made an amendment on disclosure where it is explained that an entity is required to disclose information regarding new risks from reforms and how these would be managed during various benchmark rates and transition. Lewis (2001) made a clear point on the importance of Islamic accounting standards. They conveyed that the answer to the significant improvement in Islamic financial organization and financial units that has shown up in recent times. They took the reference of the Holy Qur’an and its principles and approach. It was mentioned that as approx. of 500 injunctions of a legal nature was mentioned along with 20 of them are based in the economics (Lewis & Algaoud, 2001). The injunction against Riba basically taken from Holy Qur’an. Wherein, the prevention was noted four times Lewis & Algaoud (2001). While next key aspect for Islamic accounting standards was the requirement integrated in the Holy Qur’an was focusing on payment of Zakat (Lewis, 2001). Sulaiman (2001) identified two essential principles primarily as the core area of accountability in Islam. The tram focused on the Islamic perspective by giving importance to social accountability, this influence on the financial reports thereby enabling Muslims to determine Zakat liability. Ibrahim (2000) reported that significantly amount of data which included income statement and as well as balance sheet prepared in line with conventional traditional accounting can be proven to be advantageous for Islamic accounting. This can also boost the Islamic accounting processes in an overall manner. On the other hand, it can be noted that the full reception of traditional way of accounting standards might not serve Islamic businesses. The extensive implementation of IFRS with respect to Choi & Mueller (1992) will enhance acceptability financial statements and many more advantages. Some advantages include effective utilization of time; wise spend of money, better explanation and improved integrity of the financial reporting process and over all living.

The field of international accounting standard is subjugated by the Anglo-American model. Some of the IFRS do not mirror the major Islamic observations predominantly with respect to interest transactions (Bhattacharjee & Islam 2009). While, El-Din (2004) referred that the main intension of economic accounting for Islamic financial establishments and foundations need to authenticate the rules and responsibilities of all concerned panel in harmony with the ideologies and thoughts of equality, lucidity and occupational ethics of Shariah principles. This also include joining in the conservation of Islamic financial organizations properties, and the privileges of others in a well-defined way. Binti Zaini (2007) impaled to poor and low standard of accounting standard Auditing Islamic financial institutions (IFIs) rely on various methods for the grounding of financial information data. When it comes to IFIs, there was lot of difficulties noticed while generating various accounting reports such (profit/loss) account as well as balance sheet. This was because of traditional accounting methods was not gratify the actual desires of Islamic business objects. Shadia (2007) commented on the Islamic accounting canons, which can be implemented by all Islamic business units. This will add value
to assessments of financial statements of peer financial organizations so that there can be estimations of this firm may be mediated by stockholders and world. Lovett (2002) made a discussion on the financial statements set with respect to various accounting standards a major issue, which possibly will have exist in terms of comparability and creditability. Included comments on the reliability of economic statements which are prepared globally. It is agreed that diverse Islamic countries have come up with a single accounting norm will boost the number of firm compatibles with AAOIFI rules and regulations.

Abongwa (2005) mainly concentrated on the accounting standards which shall replicate the nature of the certain nations so that it should be made consequently. On similar lines, Karim (2001) conveyed that AAOIFI accounting standards related to Shariah laws and delivered accounting standards can be interrelated effortlessly by handlers. In most of the situation, firms in UAE support IFRS. For example, firms listed in Abu Dhabi securities exchange are made to apply IFRS, but in reality, no such specific rules and regulations as to their claim. Whereas, the listing instructions of the Dubai financial exchange (NASDAQ Dubai) which is also at international level need to record companies to fix IFRS economic statements. However, the entry rules of the Dubai Financial Marketplace PJSC do not suggest a specific bookkeeping agenda to be used in the economic reports of itemized corporations. Therefore, IFRS are allowed and are adopted by frequently listed forms and some economic institutions use pecuniary Accounting Ethics issued by the AAOIFI. All other supervisory units require IFRS emailing apart from certain government bodies (IFRS Foundation 2013). The AAOIFI ethics are now enabled in the Dubai International Financial Centre (DIFC).

However, in the different studies mentioned above, no researcher has yet surveyed or interviewed Islamic banking professionals or managers in the UAE to identify influences of the AAOIFI accounting standards on Islamic banks. This research study aims to fill this gap in knowledge in this area; by comparing the specific accounting standards which have been developed by the AAOIFI and the applied IFRS in the UAE Islamic banks, to ascertain whether Islamic banks in the UAE should continue to follow the IFRS issued by the International Accounting Standards Board (IASB), or adopt the Islamic accounting standards issued by the AAOIFI.

Objectives and Significance of this Paper

The intention of the present work is to come up with the comparison study between the accounting standards with respect to AAOIFI, which can be related to IFRS and UAE. The idea here to connect the Islamic financial institutions in UAE can follow up with the rules of IFRS which are again in synchronization by International Accounting Standards Board (IASB). On the other hand, this study considered the option of enabling Islamic accounting standards supported by AAOIFI. So the system can be made more suitable for the end user by floating across the series of questionnaires. This study can make a very systematic approach across various angles to highlight the advantages and limitations of IFRS. While AAOIFI which powdered by Dubai International Financial Centre has already followed the regulations. This study expands its horizon to cover up the Islamic accounting standards to western counties, so that a better approach can be made. AAOIFI accounting standards can play vital role in inspiring the purpose of Islamic financial institutions process activities as well the way of reporting. This study also covers the exposure given to bank employees and investors which are related to growth of AAOIFI accounting standards. There interdisciplinary relation across three things such as processes, activities and reports can be connected. This well also motivates researchers and
academicians to take up the path of Islamic accounting as a core research topic. With UAE this area is lot of scarcity with such topic with speaks about the accounting standards as well as AAOIFI standards. This gets importance in value addition in courses under the hood of Islamic accounting provided management of university take this a challenging task in a more positive sense.

This study will lead to a better understanding of the similarities and differences in the application of IFRS and AAOIFI accounting standards to the UAE Islamic banks. This study will also examine the relevant AAOIFI accounting standards, to gain an understanding of the factors that must be taken into account when considering the adoption of AAOIFI by the Islamic banks in the UAE, and to also understand the factors that may prevent the complete adoption of AAOIFI in the UAE. The potential shift from IFRS to AAOIFI accounting standards for UAE Islamic banks is expected to present significant challenges for the UAE Islamic banks’ financial report preparers, users, and auditors. This study will contribute to existing knowledge of the topic in many ways. As can be noted from the literature, there have been several calls for a separate examination for AAOIFI accounting standards. Therefore, this study attempted to fill the general gap in the literature on the relevance of AAOIFI accounting standards to Islamic banks, and a more specific gap, by studying the adoption of AAOIFI accounting standards in the Islamic banks in the UAE.

There are significant advantages and disadvantages between AAOIFI standards with respect to IFRS. So, it’s important to note down the actual need for the considered standards and the most suitable standards which can be suggested in the UAE. The crux of the major conserved her is “What are the significant differences and similarities that held between AAOIFI Accounting Standards and the IFRS”. Thus, it can be cleared that when system can be shortlisted for users, so that they get fully satisfied. The questionnaire can be split into three sectors.

- Who are the actual users of accounting data of Islamic financial institutions, UAE.
- What is the list of actual needs accounting information, UAE.
- How different are the needs from traditional financial institutions.

**METHODOLOGY**

A comparison between AAOIFI standards and IFRS was made to help determine the main differences between them. This comparison was made by analysing the content and requirements of each set of standards in terms of the information that must be disclosed, and the different accounting treatments, if any, between them. The gaps and differences between the two set of standards exist and will continue to exist. These gaps and differences are a natural result of the differing structural objectives of the IASB and AAOIFI. AAOIFI’s mandate is to develop standards where IFRS do not cater for the specificities of Islamic Banking or leads to Shariah compliance issues. As long as there are economic, legal and social differences between Islamic and conventional banking and finance practices, there will also be differences in the standards issued.

This study compared the AAOIFI's basic accounting standards to the applied IFRS in UAE Islamic financial institutions in order to decide whether the UAE's Islamic financial institutions must continue to implement the IFRS provided by the (IASB) International Accounting Standards Board or implement the AAOIFI's Islamic accounting standards. AAOIFI has released 26 guidelines of accounting, 5 auditing standards and 7 governance standards, in addition to 2 codes of ethics and 40 Shariah standards (Khan, 2010). The emphasis will be on the
following accounting standards: Asset Movement Declaration, Deferred Payment Sale, Foreign Exchange and Foreign Operations Transfers, Arrangements and Reserves, Murabaha (cost-plus funding), Mudharaba (sharing of profits) and Zakat (a religious duty as a fundamental obligation).

This study would contribute to a deeper understanding of the parallels and disparities between Islamic financial institutions in the implementation of AAOIFI accounting principles and IFRS to the UAE. This review would also look at the related AAOIFI accounting principles in order to achieve a better understanding of the considerations that must be addressed when Islamic financial institutions in the UAE consider implementing AAOIFI, as well as the factors that may preclude full adoption of AAOIFI in the UAE. The way researchers perform research is dictated by their own ontological and epistemological values, or their perspectives on the social universe and what is learned about it, as well as the essence of intelligence and how it can be obtained (Ormston et al., 2014). The analysis of the enforcement of Islamic Accounting Principles and IFRS as approved by AAOIFI in UAE and comparison of these two standards can be used as the research or approach used in this situation. Creswell's (2002) explanatory methods technique was adopted. This study obtained expertise by analysing the experiences of those that were part of the research group. Both the environment and culture of researchers and participants have played a significant role (Ormston et al., 2014). A collection of basic principles and values about how this world is viewed were contained in the research theory, which can then acted as a basis for thinking about what drives the researchers actions (Jonker & Pennink 2010).

Internal postal questionnaires were used in this study because this method allowed respondents to complete the questionnaires at their own leisure. The questionnaire survey for this study was conducted in a number of various Islamic banks and financial institutions of UAE, as well as the (DIFC) Dubai International Finance Centre. The survey approach assisted in determining core aspects of the analysis that were specifically linked to understanding the viability of Islamic financial institutions implementing accounting standards. This approach has main focus on the development of an acceptable questionnaire that included a series of questions relevant to the research goals, allowing for the collection of necessary data from selected participants (Bell et al., 2018). Current practitioners who are using the Islamic financial transactions and processes were asked to complete the survey. The questionnaire contained certain open-ended questions that were analysed using experimental approaches for certain questions where participants chose to include more information than a Likert scale allowed. Of about 175 questionnaires in total were distributed at random to practitioners who were chosen because they had been associated with Islamic financial transactions on a regular basis and were required to be familiar with the accounting principles used in Islamic institutions.

The Analysis of the Data Recovered

The data that was collected from our survey of questionnaire was analysed using SPSS statistics method for windows programme (Version 17.0), which proved to be extremely useful in analysing descriptive statistics relevant to the research questions. With respect to the open-ended questions contained in the questionnaire, contextual analysis was used to help make sense of the unstructured data by presenting workspace and resources. The Kruskal-Wallis test was used to evaluate the result findings relating to the comparison of accounting standards: level of importance, Cronbach's alpha, Exploratory Factor Analysis (EFA) and Skewness between the variables. Confirmatory Factor Analysis was also used in this research (CFA).
Verdicts and Discussion on Data Recovered

The suitability of AAOIFI accounting principles and IFRS to financial institutions is explored in this section, which involves the various viewpoints of practitioners and key players in the UAE. The respondent's views on this and other relevant topics, like comparison of IFRS and AAOIFI accounting principles, will be addressed in this section. The main objective of this segment is to deliver a broad overview of the questionnaire survey results. This segment is focused on the outcomes of a survey of Islamic finance professionals. The Dubai International Finance Centre was also discovered to be a major player in the advancement of Islamic Accounting Principles in the UAE (DIFC).

Following Shariah Principles

In the year 1998, Haron (1998) has claimed that Islamic financial institutions in many countries (particularly in the Middle East) operate with a small number of Shariah principles. In countries like Iran, Pakistan, Bangladesh, and Malaysia, several additional concepts have been applied. According to Hassan (2008), Islamic financial institutions are attempting to introduce Basel-II but are experiencing a variety of roadblocks, including risk of liquidity, a complexity profit and loss system, product standardisation, and a shortfall of Shariah-compliant short-term tools for coping with mismatched properties and liabilities. Further, Hassan (2008) stated that the Islamic financial institutions are having trouble implementing IFRS, and that some of the risk models which expose the Islamic financial institutions to risks that are not visible to the conventional banking system.

The conceptual framework of AAOIFI specifies the financial reporting goals and components, values, and the high-level principles behind the financial identification and law assessment (Sutton et al., 2015). AAOIFI is a private standard body was formed to promulgate auditing, standards of governance, and accounting standards basing on Shariah concepts; such organizations have mandated and recognized to strengthen ethics, governance, accounting and auditing standards concerning Shariah principles (Hassan et al., 2006).

The role of sharia law in the (IFRS) International Financial Reporting Standards and the AAOIFI accounting standards in UAE was investigated in this piece of research work. The data which was obtained by analysing previous records and conducting a survey of participants' employees at all Islamic financial institutions in UAE using the questionnaires. The product of Islamic financial services, Islamic financial institutions operate. The survey participants were asked about Islamic financial institutions' facilities and transactions, as well as whether or not they agreed that the Islamic banking financial transactions follows the laws of Shariah rules, and how all these various transactions vary from that of those commercial conventional banks. While Islamic financial institutions have endeavoured to comply with Shariah principles and their interpretations of those principles which are the most relevant to achieve the compliance differ. Although Islamic financial institutions have tried to follow Shariah principles, their interpretations of which principles are the most important to follow differ. As a result, it was proposed that those who write accounting standards but are not from Islamic backgrounds should consult with their counterparts in Islamic countries that use IFRS system of accounting rules (Tsai, 2020).

The respondents pointed out that Islamic financial institutions have transactions which cannot be justified by the application of IFRS accounting concepts because they do not represent Islamic financial principles and are biased towards traditional banking practises. Some of the
respondents also added that the IFRS has been well drafted in order to account for traditional goods, but that it can only be accepted in certain sections by Islamic financial institutions in the UAE, and that the accounting principles of AAOIFI are therefore more effective in Islamic countries like the UAE because of their accounting systems comply with sharia rules, as opposed to the IFRS standards (El-Halaby et al., 2020). IFRS has an impact on present considerations of the Islamic financial transactions in the Islamic financial institutions, as the most of the respondents claim that Shariah values are not given a higher priority. Islamic financial institutions were attempting to conceal the fact of local investors' interests were being to neglect in the current adoption of the IFRS.

**The Disclosure of Information**

Western transnational companies have tried their best to spread their specific brand of the corporate environment and social responsibility accounting in the Arabian countries (Kamla et al., 2006). It was pointed out that there is nothing in the law that restricts the type of accounting, and that the accounting is not merely limited to a financial or on materialistic basis. Furthermore, Khan (1994) claimed that another unresolved question in accounting system is the extent of disclosure, and that is deciding whether the treatments or accounting policies disclosure are considered material is crucial in determining the financial period's performance. Efforts are being made in most the countries to broaden the scope of exposé, by regulatory authorities.

Explanatory factor analysis was employed by Dusuki & Abdullah (2007). They examined the main factors that motivate customers to deal with Islamic banks particularly in a dual banking environment by using factor analysis. Complete disclosure should be provided by the financial reports and to serve the needs of locality, specifically according to the Shariah requirements, like The Zakat (Benston & Harland, 1990). Participants or respondents were asked how much full revelation of any and all relevant information is included in financial reports of Islamic financial institutions, which helps users make religious and economic decisions. The majority of respondents reported that Islamic financial institutions Ahmed et al. (2021) had complied by adopting Shariah corporate guidelines in order to include more significant details and detailed disclosures. Some respondents had claimed that current inadequacy in disclosure compliance, combined with the shortcomings of regulatory bodies, has limited the willingness of users to make correct decisions.

Furthermore, respondents reported that the Commodities Authority and UAE Securities regulate the listed financial institutions of Islamic on the stock exchange. After the establishment of the Commodities Regulator and UAE Securities, the listed or recorded Islamic financial institutions have been mandated to make available additional information along with with their financial reports, improving financial analysis and providing better information to investors. Participants also agreed to the fact that stockholders and investors of local need to get additional details from listed Islamic financial institutions, like the Shariah compliance report in addition to financial detailed reports. This given statement coincides with Moore (1997) who believed that the commodities authority and securities supported stockholders and investors in obtaining essential information needed to make investment decisions. Some respondents also reported that the stock market for Islamic financial institutions will have to grow and strengthen as more information is revealed that confirms Shariah enforcement of these Islamic financial institutions' transactions, thereby protecting the interests of Islamic society and attracting more Muslim investors.
Improvements in disclosure format have been seen as a result of the establishments of the UAE securities and the commodities authority, but the most of the respondents in majority were unhappy with the Shariah principles' practicality and current state of information transparency. Hence, it is suggested from the findings that the influence on the current adoption of the accounting standards in Islamic financial institutions is limited from the perspective of the Shariah principles. It was also discovered that the IFRS' sharia law had some problems, especially with zakat transactions (Ahmed & binti Kasri, 2021).

Fatwa and Shariah Supervisory Board

Kamla et al. (2006) focused on the notion of accounting for the environment through engagement with Islamic principles. They illustrated that this constitutes a contribution to a more substantive appreciation of the relevance of Islamic principles for the re-orientation of dominant accounting thought and practice. The survey participants were asked about how they would handle the issue of Islamic financial institutions' transactions that did not adhere to Shariah principles. The findings revealed that the specific participants or respondents were willing for the Shariah Supervisory Board and Fatwa to collaborate more closely with Islamic financial institutions to enhance disclosure of Shariah-mandated information, such as Zakat, to investors for the betterment of IFRS. One among of the respondents claimed that, despite insufficient transparency, there has recently been an increase in disclosure as a result of the Shariah Supervisory Board's and Fatwa involvement. Some participants indicated that implementation of AAOIFI accounting standards is unnecessary since compliance with Shariah principles in Islamic institutions is demonstrated through the assistant and the supervisory role of the Shariah Supervisory Board and Fatwa. Other respondents, on the other hand, indicated that instead of following AAOIFI accounting standards, the Fatwa and Shariah Supervisory Board should play a bigger role in deciding whether Shariah principles are appropriate in Islamic financial institutions.

Comparison between IFRS and AAOIFI Accounting Standards

The different accounting systems negatively restrict transactions across borders as well as creating difficulties in financial statements preparations (Pamuncak et al., 2018). Aljifri & Khasharmeh (2006) addressed the advantages of adoption of IFRS in the UAE such as to develop an understanding of financial reporting by international experts, support foreign investments, improve comparability and transparency of financial statements and supply the government with information to prepare appropriate economic plans. However since both IFRS and AAOIFI are basically accounting systems, they share some similarities such as provision of disclosure requirement that are inappropriate in the accounting procedures or settings. For example, Islamic financial institutions always prefer IFRS in reporting, there are at times local regulatory restrictions on requirements from their financial report users since these may not provide a clear picture of the activities in Islamic finance. The intension of this section was to come up with researcher questionaries corresponding to the respondent approach. The criteria were to implement the difference between AAOIFI with respect to IFRS, so the ultimately the users gets benefited. There exists the common understanding between the respondents that the implementing of AAOIFI might indicate to various parameters. Some of the parameters could be availability, disclosure, in deep data of investors which are linked to Shariah. The main purpose is to highlight the Islamic organizations to consider the standards of AAOIFI. This further can be
achieved by enabling IFRS into their system. It was observed that foreign investors get more attraction by IFRS than AAOIFI standards.

Variation of Financial Reports of Islamic Financial Institutions under IFRS and AAOIFI Accounting Standards

There exits lot of variation among IFRS and AAOIFI accounting standards. The scenario of the financial reporting for Islamic financial institutions deviates from one another due to the numerous authorities focused. This may not necessarily due to sharia law but rather caused by the current general requirements by the governing system (Al-Sulaiti et al., 2018). AAOIFI builds some alternative Islamic standards equivalence of IFRS is not adopted by Islamic institutions to recover particular practices of Islamic finance and banking (Marston & Shrives 2015). Therefore, there is a huge problem of lacking a common reporting framework as comparing the accounting information systems is difficult across borders. With countries found in the main Islamic region of the world, it is discovered that only Qatar and Bahrain employ the AAOIFI and IFRS while other states use the IFRS system. This implies that the reporting system of IFRS is quite favourable for Islamic countries than AAOIFI. Although most of the national standards of accounting including the one of AAOIFI and IFRS, the difference is still observed as practice differs accordingly. The IFRS is important in such a way that it enables use of globally common accounting standards that are compatible and so clients can use different financial statements and thus faster transactions and access to funding across borders of countries (Al-Wreiket et al., 2020). As per IASC al the necessary data need to reveal in commercial reports (IASC 1989). It was evident that the financial reports generated with AAOIFI was found out to me more useful to the Muslim users as compared with IFRS, since the reports provides better information. This helped propagation of significant data for local users, so that religious decisions can be made in much better ways.

The outcomes and list of points between IFRS and AAOIFI standards indicates various aspects. It noted that the larger chunk of respondent conveyed the difficulty issues in adopting IFRS. Further the application of IFRS is not simple and many found it be server and demanding. For instance, it can be noted under the category of lease dealings, as well as in case of agreements of a limited environment. Further similar situation can be reported on asset accountings. These are some of the situation which convers larges impact. Kamla (2009) discussed the contradictions between the ethical claims of contemporary manifestations of Islamic accounting practices and their actualities. She explored the potential of the contemporary Islamic accounting to join the critical accounting agenda. She claimed that Islamic accounting research is diverting from its primarily proclaimed social and moral roles due to the minimal critical theorizing and the narrow instrumental emphasis of the majority of Islamic accounting research.

With the presences of many variations there is possibility of two reasons mainly. Firstly, IFRS is mainly developed based on input from western cultures, which included the nature of western humanity, there purpose and aims. Next, the complete transformation in getting aware about the ethics and practically Islamic financial institutions. By considering the feedback from the respondents, financial reports can be classified into two different models, namely trading and financing model. While considering financing model it can be noted that the financial organizations shall main intend to take actions based only in Shariah law. It was noted that some of the respondents conveyed that the application of IFRS for few transactions was different for
various framework of accounting. This was carried out with respect to Islamic financial institutions.

Lewis’s study (2001) addressed the unique characteristics of Islamic accounting. He argued that Islam has formulated a comprehensive system of ethics governing how businesses should be run, how accounting ought to be undertaken, and how banking and finance is to be arranged. Some of the respondents also claims that by applying AAOIFI standards is the option left if need to be integrated with Islamic financial institutions (El-Halaby et al., 2020). This is to justify that it’s a basic need for accounting for users who are Muslims. On the other hand, most of the users finds attractions towards the IFRS and preferred that same when it comes to financial reporting. This attraction is because of two reasons namely; a good understanding and a better implementation process at a good cost. Apart from these benefits it also gives rise to suitable professional ruling. This made an ahead move that IASB can alleged by respondent. Further IASB are more demanding and governing compare to AAOIFI.

Comparing of Zakat under IFRS and AAOIFI Accounting Standards

When decision comes with Zakat, it’s a major point of turn. There is many and critical variations across IFRS and AAOIFI standards. Many scholars attempted on this issue, to start with (Pamuncak et al., 2018) guidelines, they conducted a study that aimed at assessing the features of Zakat within the International Financial Reporting Standard (IFRS). The authors support the use IFRS accounting standards as it provides different products like “Zakat for productive purpose”. The issue is basically important as it enables the Islamic society to benefit from services provided by IFRS (Al-Wreiket et al., 2020). It promotes transparency and accountability among institutions. However, the sharia compliance in IFRS is limited though the concept of zakat prevails. On the other side, Islamic institutions have got their own Islamic accounting objectives that are basically different from the commonly known conventional accounting.

Another researcher emphasized that the Islamic banking activities follow Shariah law which is within the scope of socially responsible and ethical banking activities and different from that based on interest-based banking. His paper attempted to measure the input data required by Shariah-compliant banking in comparison with conventional banking to estimate their relative efficiencies and economies and returns to scale. The uniqueness of the Islamic accounting is to focus on the main functionality of Islamic requirements. This is mainly done in the financial reports prepared to keep the external users informed. Among the Islamic requirements is the financial reporting on Zakat payment and avoidance of expenses and earnings forbidden by Islam. One of the questions in the questionnaire survey was added to collect the information regarding the determined the amount of Zakat based on the financial reports of Islamic financial institutions. The respondents indicated strong support for the idea that relevant and sufficient information related to Zakat is not included in financial reports of Islamic financial institutions. For instance, lack of information was found on Zakat criteria when significant group of respondents touched on the topic of fair value measurements of investment property. This was under the IAS 40. On the other side on focusing on AAOIFI standards there must include measurements based on the historical cost (FAS 9). This can express more information on the Zakat as which was backed by many of respondents. Few of the respondents imply the IFRS neglect the Zakat initiation as the contribution duty.

The actual amount of Zakat is key factor which need to be considered at top priority. IT should be the key objectives from the perspective of Islamic financial institutions. So, a Muslim
society should ensure the Zakat concept carefully and under knee manner. It (Lewis 2001) can be noted that when points of discussion of Shariah principles have made it very clear and give more importance on the concepts of Zakat. There are numerous rules which need to follow by Muslim among which Zakat is on top priority and it is considered as an important religious rule and proper accounting need to be made.

It is pretty much clear that there is lot of lagging with respect to the information regarding Zakat. This was noted by many of the respondents and agreed upon the financial reports underateen by Islamic financial institutions. There was step taken and struggle made via Islamic financial institutions by creating Fatwa and Shariah Supervisory Board to integrate Shariah. Some of the respondents found that the leads to maximum Muslim investors do not intend towards the economic information produced by the Islamic financial institutions. Thus, there is a situation were in the unsuitability of the application of IFRS inside the agenda of Islamic responsibility. With this scenario the users are in dilemma that Islamic accounting actually limits its boundaries to make choices. On the other hand, Shariah principles find its places and importance among the many of the respondents. Respondents took AAOIFI standards by Islamic financial institutions might deliver information related to Shariah moralities. This can be integrated in sportsmanship with assessments of fair worth which could also be applicable for Zakat intentions (Mnif & Tahari 2020).

Islamic Financial Institutions and Interest Rates

Recently, the board of International Accounting Standards released an update of IFRS taxonomy that comprised of the “interest rate benchmark reform” and a reform on inter-bank rates offered. This was done by providing a set of amendments regarding the standards of IFRS. The amendments were intended to help institutions have important information regarding on financial statements effects to investors. The new amendment was also meant to help users understand financial statements digitally and how uncertainties from reforming interest rates hiders the hedging relationship of the entity. The interest rates amendment comprised of disclosures, hedge accounting, and contractual cash flow changes. It can be noted that during year 2017, department if accounting and auditing from Islamic Financial Institutions came up with a total of six different standards corresponding to financial accounting. This was done using the formula of cost financing through contracts of Islamic financing. The interest-rate free Islamic banking framework was done basing on model derived by Lucas in 1990. One of the areas respondents focus was on the importance of financial reports of Islamic financial institutions have on economic implements, which are not linked to notice charges. They were also updated to come up with view on the will the financial reports of Islamic financial institutions should focus on the revelation of remunerated interest. If there are presences of such activity, then what best list of steps can be made in regard to rate transactions (Touron & Daly 2020).

From the information received from the respondent it can be conveyed that the interest rate is the major criteria which put apart the facilities provided from Islamic financial institutions powered from banks. As long as Islamic viewpoint is considered the feedback from the respondent have noticed the major component is interest. Respondents have made clear there is presence of interest compact in some to the other transactions by Islamic financial institutions. Still they not accept the hold on the information to get sorted by providing detailed particulars. Further the information in the rate of interest benign enabled in various division of unique commissions. Few respondents express the inclination to classify awareness as a superior
assignment was due to the devotion that Muslim nominees fixed towards the tenure. It was also stated that there is notice functional on delay expenses from Islamic firms. This tactic may have been projected to confirm that Islamic financial institutions were linked on a comparable root to marketable banks. It was set by some of the respondents that Islamic financial institutions get funds which jumbled the money by interest. One survey respondent advised that such information indicted by Islamic financial institutions must be presented to kindnesses work (Mustafa, 2020).

CONCLUSION

A realistic approach was applied to achieve the key goals of this piece of research work. This allowed the researcher to follow a research design focused on a blend of quantitative and qualitative methods. Compared to the current norms of IFRSS, a general picture of the challenges and obstacles facing the potential adoption of AAOIFI standards in Islamic financial institutions was created. Investigations were focused on qualitative approaches extended by interpretive processes, enabling the key findings to draw concrete conclusions. Based on some important cultural and religious problems which have emerged, according to some respondents, as a result of the Islamic financial institutions' adoption of the IFRS, such as the basic terminology of the Shariah principles and the language translation from English to Arabic. This also gives one of the best suggestions for a probable problem listed in Islamic financial institutions in the stock market and may also pose a challenge to local Islamic financial institutions due to resource constraint. The results suggest that interest from various Islamic financial institutions reporting on the stock market is included in such type of transactions. Study respondents indicated that the disclosure of Islamic financial institutions was inadequate for the implementation of Shariah principles, such as the disclosure of data that helps measure the sum of Zakat. Although most of the respondents were not happy with the current level of transparency and the inclusion of interest in such type of transactions, compared to those prepared in compliance with AAOIFI requirements, they were more satisfied with the financial reports prepared under the IFRS regime. The results of the paper confirm that religious and cultural considerations are having a small influence on accounting systems.

REFERENCES


