



## AAOIFI Accounting (IPD 02)

### Course Synopsis:

**Objective:** To review AAOIFI Accounting Standards for core Islamic Finance Instruments.

The course introduces AAOIFI Financial Reporting Standards and reviews the accounting implication of four core contracts; Murabaha, Ijara, Musharaka & Mudaraba. It covers the reasons for unique Islamic accounting standards. Simple examples for the non-accounting executive are given to illustrate the AAOIFI Accounting Standards in a manner that builds on the Foundations of Islamic Banking and Finance course and its transaction examples

**This module is suitable for:** Bankers, Accountants, Audit Professionals, Operations Team Members, Sharia'a Auditors

**Chapter 1:** Introduction to Financial Reporting Framework for Islamic Financial Institutions (IFIs). In this session, we begin with the overview of the financial reporting framework for Islamic Financial Institutions (IFIs). We discuss how the different operation mechanism of an IFI; sale, lease and equity based mechanisms translate into a different asset and liability composition for an IFI. We also discuss briefly the accounting implications of different Islamic deposits.

**Chapter 2:** AAOIFI Accounting Standards: In this session, we introduce AAOIFI and its accounting standards. We also discuss the objectives of Financial Accounting for IFIs according Statement of Financial Accounting Standards 1 (SFA 1) and highlight the financial statements that are unique to IFIs like Statement of changes in restricted investments and statement of Qard, Zakat and Charity Fund in addition to the normal financial statements. We wrap up this session by comparing the role that AAOIFI & IFRS plays.

**Chapter 3:** Analyzing Accounting for Murabaha: In this session, we review Murabaha, Murabaha to purchase orderer (MPO) and Agency Murabaha. We will evaluate the Murabaha transaction stages and how it affects the accounting procedures. We will discuss issues related to measurement of Murabaha assets and the recognition of the Murabaha income. We will examine how the status of promise (binding or non-binding) affects the measurement of the Murabaha asset. Early settlement and rebate issues will be highlighted. We close the session by



reviewing the AAOIFI Financial Accounting Standard on Murabaha; FAS 2 including the journal entries and extract of the balance sheet.

**Chapter 4:** Analyzing Accounting for Ijara: In this session, we review Ijarah and Ijarah Muntahiyya Bi Tamleek (IMBT) structures. As Ijara accounting is an area where AAOIFI and IFRS differs, we will briefly examine how IAS 17 treats lease accounting. We will then discuss AAOIFI's recommendation for Ijara accounting. We will evaluate the Ijara transaction stages and how it affects the accounting procedures. We will discuss issues related to measurement of Ijara assets and the recognition of the Ijara income. We then review the AAOIFI Financial Accounting Standard on Ijara; FAS 8 and discuss how customer deposits are treated in Ijara. We close the session by comparing how accounting for Murabaha and Ijara differs.

**Chapter 5:** Analyzing Accounting for Mudaraba and Musharaka: In this session, we review the Mudaraba and Musharaka structure and the basic rules governing their operations. We will examine how profit distribution will be affected by Sharia'a requirement. Then, we will discuss measurement and recognition issues of Mudaraba & Musharaka capital and profit. We close the session by reviewing the AAOIFI Financial Accounting Standard on Mudaraba; FAS 3 and AAOIFI Financial Accounting Standard on Musharaka; FAS 4.