

AAOIFI Financial Accounting Standard 41  
**Interim Financial Reporting**

## Contents

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Contents .....	2
Preface.....	4
Introduction.....	5
Overview.....	5
Rationale for issuing this standard .....	5
Objective of the standard.....	6
Scope .....	6
Definitions .....	6
Principles for preparation of interim financial reports .....	6
Forms of interim financial reports.....	6
Applicable requirements for all interim financial reports .....	7
Accounting policies.....	7
Other significant considerations .....	7
First time adoption .....	7
Minimum components of a condensed interim financial report.....	8
Effective date.....	9
Appendices .....	10
Appendix A: Adoption of the standard.....	10
Members of the board .....	10
Reservation.....	10
Working group members .....	11
Executive team .....	11
Appendix B: Primary statements under various AAOIFI FASs .....	12
Appendix C: Basis for conclusions .....	13
Primary statements required for interim reporting.....	13
Interim financial reporting in case of first time adoption of AAOIFI FASs .....	13
Interim reporting for Zakah.....	13
Appendix D: Brief history of the preparation of the standard .....	15

AAOIFI Financial Accounting Standard (FAS) 41 “Interim Financial Reporting” is set out in paragraphs 01-15. All the paragraphs have equal authority. This standard should be read in the context of its objective and the Conceptual Framework for Financial Reporting as endorsed by AAOIFI.

All AAOIFI FASs shall be read in conjunction with the definitions, Shari’ah principles and rules and key considerations provided by AAOIFI Shari’ah Standards (SS) in respect of such products and matters.

## Preface

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- PR1 Islamic financial institutions (the institutions), under the respective governing laws and regulatory directives, may be required to publish interim financial reports. Interim financial reports are intended to provide an update on the most recent complete set of annual financial statements. Accordingly, interim financial reporting focuses on new activities, events and circumstances occurring during the financial reporting period to enable users to compare trends over time.
- PR2 Prior to the issuance of this standard, AAOIFI had not issued a standard on interim financial reporting and by necessity, the institutions following AAOIFI Financial Accounting Standards (FAS) referred to the generally accepted accounting principles for guidance. This standard aims to provide guidance on interim financial reporting to cater for the information needs of the users of financial statements of the institutions, particularly concerning matters distinct to Islamic finance.

## Introduction

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### Overview

- IN1 This standard prescribes the principles for the preparation of interim financial reports and the relevant presentation and disclosure requirements, emphasising the minimum disclosures specific to the Islamic financial institutions (the institutions) in line with various AAOIFI Financial Accounting Standards (FAS).
- IN2 This standard considers and aligns the relevant requirements with FAS 1 “General Presentation and Disclosures in the Financial Statements” and other recently issued / revised AAOIFI FASs, particularly regarding the primary statements and the minimum content of interim financial reports. This standard also aligns with the more recent changes in terminology and the requirements specified by the newer AAOIFI FASs.
- IN3 This standard also provides an option for an institution to prepare and publish a complete set of financial statements at interim reporting dates in line with the respective AAOIFI FASs.
- IN4 In respect of interim reporting matters not specifically addressed by this standard, the institutions shall refer to the generally accepted accounting principles relating to interim reporting as applicable in their respective jurisdictions.

### Rationale for issuing this standard

- IN5 The AAOIFI Accounting Board (AAB / the board) considered that an institution may elect or be required by law, regulations or practice to prepare interim financial reports providing lesser information at interim dates as compared with its complete set of financial statements prepared in accordance with AAOIFI FASs at the end of the financial reporting period.
- IN6 The institutions, according to the prevalent practices, may be following the generally accepted accounting principles as applicable in their respective jurisdictions. However, the adoption of such principles, although allowed by the AAOIFI FASs and the “AAOIFI Conceptual Framework for Financial Reporting (Revised 2020)” (the conceptual framework), has certain issues relating to the alignment with the overall framework, the terminologies, the minimum contents including the set of primary statements to be presented, certain treatments and, at times, the relevant definitions. The board concluded that a specific standard is required to establish a consistent set of principles for the institutions that intend to prepare a condensed set of interim financial reports in line with the requirements of AAOIFI FASs.

# **AAOIFI Financial Accounting Standard 41**

## **Interim Financial Reporting**

### **Objective of the standard**

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1. This standard sets out the principles for the interim financial reporting for all institutions having adopted AAOIFI Financial Accounting Standard (FAS) and should be read with other AAOIFI FASs and generally accepted accounting principles, applicable in relevant jurisdictions.

### **Scope**

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2. This standard applies to the institutions having adopted AAOIFI FASs, which are required to prepare and publish interim financial reports according to the applicable law, directions of the respective regulators and / or, where relevant, the stock exchanges.
3. This standard also applies to the institutions voluntarily electing to prepare and publish interim financial reports.

### **Definitions**

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4. For the purpose of interpreting and applying this standard, the following short definitions are relevant:
  - a. Interim period – is a financial reporting period shorter than a full financial year;
  - b. Interim financial report – is a financial report for an interim period containing either:
    - i. a complete set of (interim) financial statements as prescribed in FAS 1 “General Presentation and Disclosures in the Financial Statements”; or
    - ii. a set of condensed interim financial statements as set out in this standard.

### **Principles for preparation of interim financial reports**

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5. An institution shall take guidance from the generally accepted accounting principles as applicable in the relevant jurisdiction for the purpose of preparation of interim financial reports unless a contrary stipulation is prescribed in this standard.

### **Forms of interim financial reports**

6. The institution shall have a choice that the interim financial reports is prepared and presented either in accordance with paragraph 4(b)(i) or paragraph 4(b)(ii).
7. Where the institution opts to prepare the interim financial report in accordance with paragraph 4(b)(ii), it shall prepare such reports in line with paragraphs 12-14 of this standard.

## **Applicable requirements for all interim financial reports**

### *Accounting policies*

8. An institution shall apply the same accounting policies applicable to the previous annual financial statements prepared according to FAS 1 “General Presentation and Disclosures in the Financial Statements”.
9. Any change in accounting policy, including a change resulting from adoption of a new AAOIFI FAS, shall be made according to the hierarchy for selection and application of accounting policies in FAS 1 “General Presentation and Disclosures in the Financial Statements”<sup>1</sup>, in a manner that these are applied for the annual financial statements<sup>2</sup>.

### *Other significant considerations*

10. An institution shall identify specific considerations with regard to the applicability of AAOIFI FASs (in respect of the relevant accounting treatments) and the generally accepted accounting principles (particularly with regards to the minimum disclosures) on the interim financial reports including, but not limited to:
  - a. application of judgments in making estimates;
  - b. assessment of materiality including qualitative materiality;
  - c. recognition of losses from impairment of assets and / or credit losses;
  - d. acquisition and disposal of items of property, plant and equipment, including any commitments for the same;
  - e. settlement of a litigation or a significant change in possible outcome of an ongoing litigation;
  - f. correction of prior period errors;
  - g. changes in business or economic circumstances that affect (or may affect) the fair value of the institution’s assets and liabilities;
  - h. related party transactions; and
  - i. changes in contingent liabilities and assets.

### *First time adoption*

11. An institution adopting AAOIFI FASs for the first time shall consider the requirements of FAS 36 “First Time Adoption of AAOIFI Financial Accounting Standards”<sup>3</sup>.

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<sup>1</sup> Also see paragraph 165 of FAS 1 “General Presentation and Disclosures in the Financial Statements”

<sup>2</sup> See paragraph 40 of FAS 1 “General Presentation and Disclosures in the Financial Statements”

<sup>3</sup> See paragraph 22 of FAS 36 “First Time Adoption of AAOIFI Financial Accounting Standards”.

## Minimum components of a condensed interim financial report

12. A condensed interim financial report shall include, at a minimum:
- a. the primary statements in line with the relevant AAOIFI FASs on general presentation and disclosure as applicable to the institution. Primary statements under various AAOIFI FASs are provided in Appendix B of this standard; and
  - b. notes, comprising significant changes in accounting policies and other explanations / movements, including minimum disclosures under generally accepted accounting principles and relevant regulatory requirements.
13. The condensed interim financial report shall avoid repetition of information previously reported. In this respect, an institution may generally provide less information as compared with its annual financial statements, and instead, shall provide an update on the most recent annual financial statements in the condensed interim financial report. These updates shall include new significant transactions, other events and significant changes in circumstances only. The condensed interim financial reports shall include, at a minimum, each of the headings and subtotals that were included in the most recent annual financial statements (the primary statements only).
14. An institution shall specifically consider providing information (when considered material either quantitatively or qualitatively) in line with the relevant AAOIFI FASs with regard to disclosures related to:
- a. quasi-equity including investment accounts in line with the requirements of the relevant AAOIFI FAS<sup>4</sup>;
  - b. Al-Wakala Bi Al-Istithmar in line with the relevant AAOIFI FAS<sup>5</sup>;
  - c. off-balance-sheet assets under management including off-balance-sheet investment accounts in line with the relevant AAOIFI FAS<sup>6</sup>;
  - d. profit distribution (related to (a), (b) and (c) above);
  - e. Shari'ah non-compliant income, if any, in line with the requirements of the relevant AAOIFI FAS<sup>7</sup>;
  - f. charity fund, if any, in line with the requirements of the relevant AAOIFI FAS<sup>8</sup>;
  - g. new Shari'ah compliant products and services launched during the interim period and a reference to the new accounting policy(ies) adopted for the same; and

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<sup>4</sup> FAS 1 "General Presentation and Disclosures in the Financial Statements" and FAS 27 "Investment Accounts"

<sup>5</sup> FAS 31 "Al Wakala Bi-Al Istithmar (Investment Agency)"

<sup>6</sup> FAS 1 "General Presentation and Disclosures in the Financial Statements" and FAS 27 "Investment Accounts"

<sup>7</sup> FAS 1 "General Presentation and Disclosures in the Financial Statements" or other relevant AAOIFI FAS as per the nature of the institution

<sup>8</sup> FAS 1 "General Presentation and Disclosures in the Financial Statements" or other relevant AAOIFI FAS as per the nature of the institution



- h. Zakah fund, in line with the requirements of relevant AAOIFI FAS<sup>9</sup>.

## **Effective date**

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- 15. This standard shall be effective on the financial statements of the institutions beginning on or after 01 January 2023.

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<sup>9</sup> FAS 39 “Financial Reporting for Zakah”

## **Appendices**

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### **Appendix A: Adoption of the standard**

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This standard was presented for approval in the 27<sup>th</sup> AAOIFI Accounting Board meeting held on 27 Sha'ban 1443H corresponding to 30-31 March 2022 and was duly approved.

#### **Members of the board**

1. Mr. Hamad Abdulla Al Oqab – chairman
2. Mr. Syed Najmul Hussain – deputy chairman
3. Mr. Abdelhalim Elsayed Elamin
4. Mr. Abdulmalik Alsuwayni
5. Dr. Abdulrahman M. Alrazeen
6. Ms. Amal Al Masri
7. Dr. Bello Lawal Danbatta
8. Mr. Firas Hamdan
9. Mr. Hondamir Nusratkhujaev
10. Mr. Imtiaz Ibrahim
11. Mr. Irshad Mahmood
12. Dr. Muhammad Albeltagi
13. Mr. Samet Arslan
14. Mr. Saud Al Busaidi
15. Mr. Yusuf Ibrahim Hassan

#### **Reservation**

The standard was approved unanimously.

### **Working group members**

1. Mr. Syed Najmul Hussain – chairman
2. Ms. Adelina Zuleika
3. Mr. Faizan Ahmed
4. Mr. Firas Hamdan
5. Dr. Luqyan Tamani
6. Mr. Muhammad Tayyab Raza
7. Mr. Pravin Manik

### **Executive team**

1. Mr. Omar Mustafa Ansari (AAOIFI)
2. Mr. Mohammad Majd Bakir (AAOIFI)
3. Mr. Haroon Tabraze (Senior Consultant-Researcher)
4. Ms. Farida Cassim (AAOIFI)

## Appendix B: Primary statements under various AAOIFI FASs

<b>FAS 1 “General Presentation and Disclosures in the Financial Statements”</b>	<b>FAS 34 “Financial Reporting for Sukuk-holders”</b>	<b>FAS 37 “Financial Reporting by Waqf Institutions”</b>	<b>FAS 42 “Presentation and Disclosures in the Financial Statements of Takaful Institutions”<sup>10</sup></b>
<ul style="list-style-type: none"> <li>a. Statement of financial position as at the end of the financial reporting period (also known as balance sheet)</li> <li>b. Statement of income and other comprehensive income for the financial reporting period (or statement of income and statement of other comprehensive income)</li> <li>c. Statement of income and attribution related to quasi-equity for the financial reporting period (where applicable)</li> <li>d. Statement of changes in owners’ equity for the financial reporting period</li> <li>e. Statement of cash flows for the financial reporting period</li> <li>f. Statement of changes in off-balance-sheet assets under management for the financial reporting period</li> </ul>	<p>For business Sukuk</p> <ul style="list-style-type: none"> <li>a. Statement of financial position as at the end of the period (also known as balance sheet)</li> <li>b. Income statement (duly disclosing earnings per Sukuk unit)</li> </ul> <p>For non-business Sukuk</p> <ul style="list-style-type: none"> <li>a. Statement of net assets with a Net Asset Value (NAV) disclosure</li> <li>b. Statements of changes in net assets</li> </ul>	<ul style="list-style-type: none"> <li>a. Statement of financial position as at the end of the period (also known as balance sheet)</li> <li>b. Statement of financial activities for the period</li> <li>c. Statement of Ghallah for the period</li> <li>d. Statement of changes in Waqf equity for the period</li> <li>e. Statement of cash flows for the period</li> </ul>	<ul style="list-style-type: none"> <li>a. Statement of financial position of the Takaful institution as at the end of the financial reporting period</li> <li>b. Statement of income and other comprehensive income of the Takaful institution for the financial reporting period</li> <li>c. Statement of changes in owners’ equity of the Takaful institution for the financial reporting period</li> <li>d. Statement of cash flows of the Takaful institution for the financial reporting period</li> <li>e. Statement of financial position of managed Participants’ Takaful fund (PTF), separately for the general and family operations, as at the end of the financial reporting period</li> <li>f. Statement of financial activities of the managed PTF, separately for the general and family operations, for the financial reporting period</li> <li>g. Statement of managed Participants’ investment fund (PIF) as at the end of the financial reporting period</li> </ul>

<sup>10</sup> Till the effective date of FAS 42 “Presentation and Disclosures in the Financial Statements of Takaful Institutions”, the relevant Takaful entities shall follow the requirements of FAS 12 “General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies”

## **Appendix C: Basis for conclusions**

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### **Primary statements required for interim reporting**

- BC1 The board discussed the minimum set and contents of the primary statements for the purpose of interim financial reporting. The board considered as to whether the minimum set of financial statements for interim financial reporting shall include all the primary financial statements, or a lesser number of primary statements for this purpose may be allowed.
- BC2 After due deliberations, the board decided that the minimum set of primary financial statements as stipulated in relevant AAOIFI FASs<sup>11</sup> for the various types of institutions, shall remain applicable for the interim financial reporting (even in case of condensed financial statements). The board further decided to include “Appendix B: Primary statements under various AAOIFI FASs” that lists down the requirements prescribed under other AAOIFI FASs.
- BC3 The decision of the board was based on the presumption that if sufficient guidance is not provided, the institutions may choose to prepare interim financial reports under generally accepted accounting principles and may opt not to present certain specific primary statements which are reflecting the true business model of Islamic financial institutions and other institutions following AAOIFI FASs.

### **Interim financial reporting in case of first time adoption of AAOIFI FASs**

- BC4 The board considered practical impediments in respect of interim financial reporting particularly relating to adoption of accounting policies in the year of first time adoption of AAOIFI FASs.
- BC5 The board considered as to whether and to what extent flexibility needs to be provided in this respect. However, the board noted that certain flexibility options related to interim reporting in the year of first time adoption of AAOIFI FASs, are already provided in paragraph 22 of FAS 36 “First Time Adoption of AAOIFI Financial Accounting Standards”.
- BC6 Accordingly, the board decided that the flexibility provided in the above-referred standard with regard to the effective date of transition, financial statements presentation and the restatement of comparative financial information seems appropriate and hence a cross reference needs to be created.

### **Interim reporting for Zakah**

- BC7 During the public hearing phase for the standard, certain comments were received regarding the calculation of, and reporting for, Zakah for the purpose of interim financial reporting.
- BC8 The board considered that the applicability of Zakah is normally based on the lunar calendar, and it becomes due on a specific date and hence, the computation and accrual of Zakah liability over the period of time is not relevant. However, with regard to the disclosure requirements, the board considered different options. It was considered to whether detailed disclosures shall be made in case the Zakah due date as per lunar calendar falls within the relevant interim financial period.

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<sup>11</sup> Such as FAS 1 “General Presentation and Disclosures in the Financial Statements”, AAOIFI FASs related to Takaful institutions, FAS 34 “Financial Reporting for Sukuk-holders” and FAS 37 “Financial Reporting for Waqf Institutions”.

BC9 After due deliberations, the board concluded that disclosure related to the Zakah fund shall be a part of the minimum disclosures in interim financial reporting. This is aligned with the principles of interim financial reporting to provide significant updates since the date of the most recent annual financial statements. However, detailed disclosures were not considered necessary and were left to the judgment of the management of the institution.

## **Appendix D: Brief history of the preparation of the standard**

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- H1 The working group for the revision of FAS 1 during its 6<sup>th</sup> meeting on 28 Dhul-Qa'dah 1440H, corresponding to 31 July 2019 suggested that interim financial reporting requirements will be scoped out of revised FAS 1 and a separate guidance / standard shall be issued.
- H2 The AAOIFI Accounting Board (AAB) held its 18<sup>th</sup> meeting on 1-2 Dhul-Qa'dah 1441H, corresponding to 22-23 June 2020. In this meeting the members constituted a dedicated working group for the project in line with the recommendations from the revision of FAS 1 working group.
- H3 The working group held its 1<sup>st</sup> meeting on 18 Dhul-Qa'dah 1441H, corresponding to 9 July 2020. In this meeting questions to be addressed as part of the preliminary study was presented and the value addition of developing a new AAOIFI FAS on interim financial reporting was discussed. The working group agreed on the need for guidance and illustrative financials.
- H4 The initial draft was presented at the 2<sup>nd</sup> working group held 26 Dhul-Hijjah 1442H, corresponding to 5 August 2021. The working group deliberated on the draft with a recommendation to the board to be issued as a standard.
- H5 The AAB held its 25<sup>th</sup> meeting on 25-26 Muharram 1443H, corresponding to 2-3 September 2021. In this meeting the contents of the draft were discussed and the board concurred with the working group recommendation that the draft shall be issued as a standard. The exposure draft was approved in principle, with instructions for making suggested changes.
- H6 After due process and incorporating instructions and comments of the board, the exposure draft was issued on 1 Rabi' II 1443H, corresponding to 6 November 2021.
- H7 The public hearings for the exposure draft were conducted in November 2021 and the public hearing in Arabic language was conducted in February 2022.
- H8 The committee of the AAOIFI Shari'ah board for review of accounting and governance standards held its 29<sup>th</sup> meeting on 22 Rajab 1443H, corresponding to 23 February 2022 where the standard was duly discussed for conformity with Shari'ah standards.
- H9 All comments received from the public hearings along with the views and comments received in writing from different industry participants on the exposure draft were presented for discussion at the 3<sup>rd</sup> working group meeting held on 20 Sha'ban 1443H, corresponding to 23 March 2022. After due deliberation, the standard was forwarded to the board for final approval.
- H10 The standard was presented at the 27<sup>th</sup> AAB meeting convened on 27 Sha'ban 1443H, corresponding to 30-31 March 2022. The standard was approved with instructions and suggested changes for publishing.
- H11 After due process, the standard was issued on 28 Jumada' I 1444H, corresponding to 22 December 2022.