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B.Com Honours | Semester VI | Calicut University

ACCOUNTING FOR ISLAMIC FINANCIAL INSTITUTIONS

Course Code: COM6EJ311 • Module 1 Notes

Module I: Fundamentals of Islamic Accounting

Covers Islamic worldview, accounting objectives (Hisbah accountability), comparison with conventional accounting, elements of financial statements, users of Islamic accounting information, and Shariah measurement & disclosure principles.

Unit 1: Accounting Objectives & Islamic World View

Islamic World View: Based on *Tawhid* (Oneness of God), *Amanah* (Stewardship), & *Hisbah* (Accountability to Allah & society). Objective: Ensuring Shariah compliance, fair wealth distribution, & Zakat calculation.

Unit 2: Islamic vs Conventional Accounting Perspective

Core Distinction: Conventional accounting focuses strictly on shareholder wealth maximization. Islamic accounting prioritizes Shariah compliance, prohibition of *Riba* (Interest) & *Gharar* (Uncertainty), & social accountability.

Unit 3: Elements of Financial Statements in Islamic Banks

Financial Statement Elements: Assets, Liabilities, Unrestricted Investment Accounts (URIA - hybrid liability/equity), Owner's Equity, Income, Expenses, & Zakat Obligation.

Unit 4: Users of Islamic Accounting Information

Key Users: Investment Account Holders (IAH), Shariah Supervisory Board (SSB), Regulators, Zakat Payers/Beneficiaries, & General Public.

Unit 5: Accounting Concepts from An Islamic Perspective

Shariah Concepts: Entity concept (Subject to Shariah boundaries), Going Concern (Subject to halal business operations), & Monetary Measurement.

Unit 6: Accounting Recognition Criteria in Shariah

Recognition Rules: Income recognized upon actual delivery of goods/services under valid Shariah contract; interest income strictly prohibited.

Unit 7: Accounting Measurement (Historical vs Current Value)

Measurement Basis: Historical cost used for general financial reporting; Cash Realizable Value / Fair Value required for Zakat base computation.

Unit 8: Accounting Disclosure & Full Transparency

Disclosure Standards: Full disclosure of Shariah compliance status, Non-Shariah compliant earnings (transferred to charity), & Zakat calculation basis.

Practical Case Framework 1 (Islamic Accounting vs Conventional Accounting Comparative Matrix): Compare accounting dimension, conventional accounting practice, and Islamic accounting Shariah standard.

Islamic vs Conventional Accounting Comparison Table:

Accounting Dimension	Conventional Accounting	Islamic Accounting (AAOIFI Standard)
Primary Objective	Maximize shareholder profit & equity value	Fulfill religious duty (Hisbah) & Shariah compliance
Treatment of Interest	Interest income & expense recognized	Interest (Riba) strictly prohibited; zero recognition
Investment Deposit Status	Deposits treated as fixed liability	Unrestricted Investment Accounts (Profit/Loss Sharing)

Practical Case Framework 2 (Financial Statement Elements of Islamic Financial Institutions): Detail financial element, definition under AAOIFI, accounting classification, and Shariah rule.

Islamic Financial Statement Elements Reference Table:

Financial Statement Element	AAOIFI Definition & Classification	Shariah Accounting Rule
Unrestricted Investment Accounts	Quasi-equity (Participating Mudarabah funds)	Shares net profits & commercial losses of bank pool
Non-Shariah Compliant Income	Prohibited earnings (e.g. penalty interest)	Excluded from P&L; transferred to Charity Fund
Zakat Payable	Statutory religious liability on net assets	Calculated @ 2.5% of net business assets annually