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B.Com Honours | Semester VI | Calicut University

ACCOUNTING FOR ISLAMIC FINANCIAL INSTITUTIONS

Course Code: COM6EJ311 • Module 2 Notes

Module II: Islamic Accounting Standards (AAOIFI)

Covers the need for Islamic accounting standards, AAOIFI framework, Financial Accounting Standards (FAS), Codes of Ethics, Statement of Financial Position structure of Islamic banks, and Shariah Corporate Governance.

Unit 9: Need for Special Islamic Accounting Standards

Why AAOIFI? Conventional IFRS/GAAP standards fail to accommodate profit-sharing deposits, Murabahah deferred profit, Ijarah asset ownership, & Zakat liabilities.

Unit 10: AAOIFI Standards & Institutional Governance

AAOIFI Mandate: Accounting and Auditing Organization for Islamic Financial Institutions (Bahrain). Issues Financial Accounting Standards (FAS), Auditing Standards, & Shariah Standards.

Unit 11: AAOIFI Codes of Ethics & Core Standards

Ethical Principles: Trustworthiness (*Amanah*), Objectivity, Professional Competence, & Strict Shariah Observance.

Unit 12: Statement of Financial Position Structure of Islamic Banks

Balance Sheet Layout:
- **Assets:** Cash, Murabahah Receivables, Ijarah Assets, Mudarabah/Musharakah Investments, Sukuk.
- **Liabilities & Equity:** Current Accounts, Unrestricted Investment Accounts (URIA), Shareholders' Equity.

Unit 13: Corporate Governance & Shariah Supervisory Board (SSB)

Shariah Governance: Independent Shariah Supervisory Board (SSB) auditing every product & issuing annual Shariah Compliance Certificate.

Practical Case Framework 1 (AAOIFI Financial Accounting Standards FAS Taxonomy Matrix): Compare AAOIFI standard number, standard title, financial topic covered, and accounting treatment.

AAOIFI Financial Accounting Standards (FAS) Reference Table:

Standard Number	AAOIFI Standard Title	Shariah Accounting Treatment
FAS 28 / FAS 2	Murabahah & Deferred Sales	Recognizes deferred profit proportionally over contract period
FAS 8	Ijarah & Ijarah Muntahia Bittamleek	Capitalizes leased asset; depreciates over useful life
FAS 9	Zakat Accounting & Disclosure	Prescribes Net Assets & Net Invested Funds Zakat bases

Practical Case Framework 2 (Statement of Financial Position Architecture for Islamic Banks): Detail balance sheet category, Islamic bank asset/liability head, financial nature, and AAOIFI presentation rule.

Islamic Bank Statement of Financial Position Architecture Table:

Balance Sheet Category	Islamic Financial Asset / Equity Head	AAOIFI Presentation & Valuation Rule
Financing Assets	Murabahah Deferred Receivables	Stated at net face value less unearned deferred profit
Leased Assets	Ijarah Muntahia Bittamleek Equipment	Presented as fixed asset under lease; depreciated annually
Quasi-Equity Category	Unrestricted Investment Accounts (URIA)	Presented between Total Liabilities & Owner's Equity