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Accounting for Murabahah – Reviewing the Need for Exclusive Accounting Standards

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ABSTRACT

Purpose: This paper examines the need for exclusive financial reporting standards for Islamic financial transactions by considering the accounting treatment of deferred payment Murabahah, as practiced in Pakistan. Being analogous to conventional banking model, Murabahah is one of the most widely deployed mode in Islamic banks. The paper compares the quality of presentation of deferred payment Murabahah as practiced, following both conventional and Islamic accounting standards.

Design/methodology/approach: The paper presents the deferred payment Murabahah (credit sale) using International Financial Reporting Standards (IFRSs) and Islamic Financial Accounting Standards (IFASs) and collects the opinion of experts (accountants, academicians, and Islamic bankers) on the extracts of the prepared financial statements. The opinions are centred on three qualitative characteristics of the financial information (relevance, faithful representation, and comparability) and a t-test is applied to examine the statistical significance of the difference of opinions received.

Findings: The results show that the overall quality score for IFRSs is higher than the IFASs for the selected qualitative characteristics. However, the difference observed is not significant, advocating the possibility of the harmonization among both Islamic and conventional accounting practices of the financial intuitions operating in Pakistan.

Originality/value: Earlier studies (Morshed (2022); El-Halaby, Albarrak, and Grassa (2020); Ullah (2020); Ibrahim and Ling (2016)) do not directly compare the presentation of the Islamic financial instruments by applying the financial reporting standards issued by AAOIFI and IASB on same instrument. This paper addresses this gap by comparing the qualitative characteristics of presented financial information for deferred payment Murabahah as guided by conventional and Islamic accounting standards by introducing an innovative approach for presentation (from the perspective of a credit sale). The paper also compares the accounting treatment of IFRSs with IFAS 1 (Pakistan), which has not yet been done.

Implications: Based on the findings of the paper, it is recommended that, like Malaysia, the IFIs in Pakistan should adapt the IFRS framework. Focus of the regulatory bodies functioning in Pakistan should be to improve existing accounting standards through meaningful engagement with standard-setting bodies and take active part in making IFRSs more compatible with the nature of Islamic financial transactions. An instrument-wise handbook should be published for the IFIs to help in the application of the IFRS framework, ensuring a Shariah compliant presentation where alternative measuring and valuing approaches are allowed by the framework

Keywords: Islamic Banking, Islamic Finance, Financial Reporting, Islamic Accounting, Murabahah Accounting, Qualitative Characteristics

1. INTRODUCTION

The history of Islamic finance can be traced back to the inception of the religion.

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However, keeping in mind the requirements of globalization, the real development in the subject started about 40 years ago. This unique concept of business and transactions is based on fundamental principles of *Shariah* derived from the *Quran* and *Sunnah*. The financial instruments in which the Islamic Financial Institutions (IFIs) deal are characterized by certain features including prohibition of *Riba* (interest), *Gharar* (uncertainty) and investments in illegitimate activities (Usmani, 2010). Islamic banks are expected to follow value judgements, like distributive justice, economic welfare, equity, and generosity. Such values, based on *Maslahah* (pursuit for affording benefit and repelling haram), are aimed collectively to achieve *Maqasid-al-Shariah* initially identified by Ghazali¹ (Chapra, 2008). To help and guide financial reporting of IFIs, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued the conceptual framework referred to as the ‘Conceptual Framework of Financial Reporting by Islamic Financial Institutions’ (AAOIFI, 2010). This framework explains the ‘general purpose financial statements’, qualitative characteristics and presentation of accounting information for the IFIs. This framework is remarkably similar to the contemporary ‘Conceptual Framework for Financial Reporting’, also known as the IFRS framework, issued by International Accounting Standards Board (IASB, 2010). The fundamental definitions of the elements, preparation of financial statements, and qualitative characteristics of the accounting information in both frameworks are similar, if not the same. The main difference, however, pertains to the areas of application, where the AAOIFI framework focuses only on financial institutions, and the IASB’s framework focuses on both financial and non-financial institutions.

The financial transactions and instruments (or modes) of Islamic finance are drastically different from that of conventional finance (Saleem, Sági, & Setiawan, 2021). The sequence, process and structure of Islamic financial transactions and modes are driven and dictated by *Shariah* injunctions. Owing to the distinctive nature of Islamic financial transactions and modes, their accounting treatment and presentation need to be in line with *Shariah* instructions, to better present the economic substance of those

¹ Identified as *hifz-al-din* (safeguarding of faith), *hifz-al-nafs* (safeguarding self), *hifz-al-aql* (safeguarding intellect), *hifz-al-nasl* (safeguarding progeny) and *hifz-al-maal* (safeguarding wealth)

transactions. Hence, it has been highlighted in the literature, that the introduction of exclusive financial reporting (or accounting) standards is mandatory for IFIs (El-Halaby, Albarrak, & Grassa, 2020). However, competing opinion in the literature also argues that existing accounting and reporting standards are sufficient to convey the economic substance of Islamic financial transactions (Morshed (2022); Voronova and Umarov (2021); Ullah (2020); and Andari (2019); Shafii et al (2013); Atmeh and Serdaneh (2012); and Naim (2010)). Recently, the global accounting standard-setting bodies have patched up the existing standards to incorporate the distinctive nature of Islamic financial transactions (Mert, 2022). Therefore, it is of striking importance to reassess the need for exclusive accounting standards for IFIs, keeping in view the recent efforts made by global accounting standard-setting bodies.

The purpose financial reporting is to help provide useful information to the users and help them in making informed decisions (Gardi, et al., 2021). Therefore, to examine the need to exclusive accounting standards, the quality of the presented information can be compared for the Islamic and conventional accounting standards, as superior quality would enable better decision making (Karasioğlu & Humta, 2021). One of the most popular and profitable earning modes for IFIs is *Murabahah*, this was the first Islamic financial instrument used by the IFIs in Pakistan (Ayaz & Shah, 2021). One of the reasons for its popularity is that is it quite analogous to conventional financial products (Bin Ellias, 2007). Considering the importance of *Murabahah* for the IFIs, this paper examines the need for exclusive accounting standards for Islamic financial transactions, by considering the accounting treatment of deferred payment *Murabahah* as practiced in Pakistan. This is done by comparing the opinions of the experts (accountants, academicians, and Islamic bankers) collected on the quality of the reporting of this instrument under the accounting framework of IASB and AAOIFI.

1.1. Research Hypothesis

The hypothesis assessed in the research is stated below:

H1 [actual hypothesis] = There is a significant difference between the quality (of presentation) score received from the experts for Islamic and conventional accounting standards for deferred payment *Murabahah*.

H0 [null hypothesis] = There is no significant difference between the quality (of presentation) score received from the experts for Islamic and conventional accounting standards for deferred payment *Murabahah*.

2. LITERATURE REVIEW

The available literature on the accounting of Islamic products argues that *Shariah* adherence is not something that just needs to be written on paper, but should be depicted in the accounting treatments of Islamic products as well (Abrar and Jayasinghe (2022); Avsar and Ozdemir (2022) Mohammed, Ahmad, and Fahmi (2016); Ibrahim and Ling (2016); Atmeh and Abu-Serdaneh (2012); Sarea (2012)). If the presentation of the Islamic products is not consistent with the substance of the transactions, they are being misreported to the stakeholders. The views of scholars regarding the accounting of Islamic products can be divided into two main groups. The first group supports the idea of exclusivity for the accounting of such products, and the second group supports the idea of harmonization instead.

The scholars that support the idea of exclusivity are of the opinion that the inconsistencies between the IASB's and AAOIFI's conceptual framework are so serious that the Islamic products should be reported in accordance with fresh accounting standards that are devised specifically to meet the needs of Islamic products. Notable studies performed, that support this view include studies done by Ibrahim and Hameed (2007); and Abdullah (2010). These studies argue that standardization among the reporting of IFIs and conventional financing instructions cannot be achieved, taking note of the difference in nature and activities of institutions. Mohammed, Ahmad, and Fahmi (2016) conducted a thorough analysis of the accounting standards issued for IFIs and concluded that the Islamic standards are merely based on the IFRSs issued by IASB. However, they believed there are some areas of differences that need to be further investigated. Another prominent study that supports this view was conducted by Ibrahim and Ling (2016). They declared the IASB's accounting standards too shallow to properly report the complex Islamic products like *Murabahah*, as *Murabahah* will be treated like a

financing product (following IFRS 9²), instead of a trading agreement (following IFRS 15³). Other prominent work supporting this school of thought includes El-Halaby, Albarrak, and Grassa (2020); Khan, Khan, and Iqbal (2018); Kadri and Ibrahim (2018); Alkali, Alkali, and Aliyu (2017); Sarea (2014); and Napier and Haniffa (2011), where different aspects of the frameworks issued by AAOIFI and IASB were compared to highlight inconsistencies.

The second group of scholars, who support the idea of harmonization, argue that there are a lot of consistencies between the conceptual frameworks issued by IASB and AAOIFI, thus, there is no need for a separate set of accounting standards for the Islamic products. Most notable studies performed in this area are credited to Naim (2010) and Shafii et al (2013). These studies made a compelling case for harmonization by explaining the fundamental accounting concepts and evaluating the Shariah permissibility of the underlying principles⁴ of IFRSs used by IASB when establishing the accounting standards. Similarly, the study by Atmeh and Serdaneh (2012) criticized the treatment offered by AAOIFI for *Ijarah*, stating that it is against the principle of fair representation. The study proposed alternative accounting treatments that would converge the *Ijarah* presentation in financial statements with the contemporary financial accounting framework. Other prominent studies that support harmonization includes Morshed (2022); Voronova and Umarov (2021); Ullah (2020); Mohammed, Fahmi, and Ahmad (2019); and Andari (2019). These studies concluded that IFIs financial reporting currently lacks harmonization, and a separate set of accounting standards is not needed for Islamic products.

Islamic products are significantly different in structure from conventional financial products due to the prohibitions imposed by Shariah (Mahmood Ul Hassan, Razzaque, & Tahir, 2013). Therefore, to better understand the structure and reporting requirements of a deferred payment *Murabahah* (credit sale) product, its distinct phases are shown below:

² Full name: International Financial Reporting Standard 9 – Financial Instruments

³ Full name: International Financial Reporting Standard 15 – Revenue from Contracts with Customers

⁴ Substance over form; time value of money; fair value measurements; and recognition based on profitability.

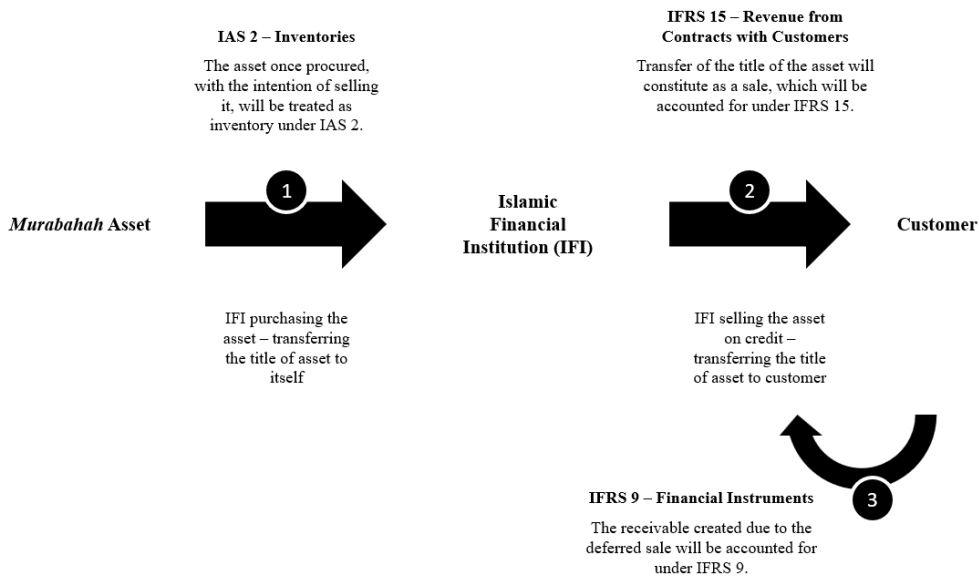


Figure 1. Deferred Payment Murabahah (Credit Sale) Structure and Applicable Accounting Standards

Source: Author

As pointed out by Ibrahim and Ling (2016), the major difference that will arise in the accounting treatment of deferred payment *Murabahah*, under IFAS 1 and conventional accounting standards (IAS 2⁵, IFRS 15 and IFRS 9), is the reporting of the receivables created due to the credit sale (*Murabahah*). Usually, the receivables that fulfil (i) Business Model Test and (ii) Contractual Cash Flow Characteristics Test are valued at amortized cost (CFI, 2022), where the future value of the receivable is discounted to present value and effective interest rate (EIR) is used to unwind it over its life (IASB, 2014). Whereas, under IFAS 1, the receivable is recorded at the invoice amount (article 4.6 (SECP, 2005)). Studies by Ibrahim and Ling (2016); and Ahmed, Sabirzyanov, and Rosman (2016) argue that recording financial income in the statement of profit or loss (SOPL) demonstrates a feature of interest-based (conventional) financial instruments. As Islamic products are interest-free, recording finance income in the SOPL gives an incorrect presentation of the product. However, ACCA and KPMG (2010) argue that discounting cash flows is merely done to estimate the market value of the instruments,

⁵ Full name: International Accounting Standard 2 – Inventories

and does not necessarily result in an actual interest charge (as seen in valuing zero coupon based financial instruments that are valued on amortized cost but have no actual payment/receipt of interest (IASB, 2014)). Therefore, valuation at amortized cost does not directly cause a conflict with *Shariah* principles. Additionally, IFRS 9 allows valuing financial assets at fair value as well (IASB, 2014), therefore, IFIs can value their *Murabahah* receivables at fair value through profit or loss (FVPL). This would remove the need to discount the instrument at the present value (PWC, 2017). Rosman et al (2016) also explained in their study that IFRS 9 allows measuring financial assets at FVPL, however, concluded that IFRS can be inadequate in catering for the unique needs of the Islamic products. Measuring financial assets at their fair value can result in complications and subjectivity. The relevant IASB issued standard providing guidance on fair value measurement is IFRS 13⁶ (IASB, 2011). The standard highlights three levels of hierarchy based on the nature of inputs in valuing the item (Ramli, Abdul Rahman, Marzuki, & Marzuki, 2021). The *Murabaha* receivables will most probably fall in level 3 (inputs that are not quoted, not directly observable, and there is no active market for the instrument), where the standard allows unobservable input methods (like cash flow projections) to value the instrument (Altamuro & Zhang, 2013). As the future cash flows expected by IFI from the *Murabaha* transaction is the invoice amount, it can be argued that the value of the *Murabaha* receivables following this approach will be the same as the invoice (consistent with the guidance of IFAS 1 (SECP, 2005)).

The main purpose of issuing accounting standards is to improve the quality of financial reporting (Karasioğlu & Humta (2021); Zafari, Foroughi, and Kiani (2019)). A vast group of scholars have used qualitative characteristics as the criteria to examine the quality of financial information presented (Atanasovski et al (2015); Kythreotis (2014); Tsoncheva, (2014); Chakroun and Hussainey (2014); Nyor *et al.* (2013); Braam and Beest (2013); Beest, Braam, and Boelens (2009)). Both frameworks (IASB and AAOIFI) have a consensus on the objectives of financial reporting that primarily include providing useful information to users for informed decisions (AAOIFI (2010, p. 49); IASB (2010, p. 9)). Both these bodies further elaborate on the ‘qualitative characteristics’ that the

⁶ Full name: International Financial Reporting Standard 13 – Fair Value measurement

information must possess. Fortunately, both bodies have a consensus on what these broad categories are (AAOIFI (2010); IASB (2010)). Tsoncheva (2014) established an effective methodology to evaluate the quality of financial reporting, by identifying four main qualitative characteristics identified by IASB in their framework. These are relevance, understandability, comparability, and faithful representation. Tsoncheva (2014) further defined the determinants of each of these four characteristics (Appendix 1).

Overall, the literature shows support for both exclusivity and harmonization of the accounting standards. However, most of the work that supports exclusive accounting standards for IFIs does not take into consideration the updates made in the conventional accounting standards due to the convergence project between IASB and Financial Accounting Standards Board (FASB) (Agostini, 2018). Moreover, the comparisons made in earlier literature do not directly compare the presentation of the Islamic financial instruments by applying the financial reporting standards issued by AAOIFI and IASB on the same instrument. Therefore, this study addresses these gaps by examining the possibility of the harmonization of financial reporting for IFIs by presenting the deferred payment *Murabahah* based on IFRS 15 (and IFRS9) and IFAS 1, to compare the quality of the presented financial information under conventional and Islamic accounting standards.

3. RESEARCH METHODOLOGY

This is a prescriptive study that takes guidance from the notions set forth by Mohammed, Fahmi, and Ahmad (2019); and Ibrahim and Ling (2016), and uses a consequential approach to examine the need for exclusive accounting standards for Islamic products. In order to examine this need of exclusivity, the quality of the reported financial information resulting from Islamic and conventional accounting standards is compared (as the financial information is reported to help in decision making for the users, and higher quality would lead to better decision making (Karasioğlu & Humta, 2021)). Therefore, the analysis performed in this paper is divided into two main sections. The first section presents the Islamic product of deferred payment *Murabahah* as per

IASB's issued IFRS 15 and then SECP's adopted⁷ IFAS 1, to examine the difference in the reporting formats. This has been done under the assumption that if the presentation of the financial products does not cause significant changes under the two accounting standards, we would be able to conclude that the existing IASB accounting standards can be effectively applied to deferred payment *Murabahah*. A thorough document analysis (standards issued by global regulatory bodies and local (Pakistani) legislative bodies) was done for processing the information to assess the possibility of harmonization. Hypothetical test data was used to present financial information according to IFASs and IFRSs for comparison.

The second section uses the experts' survey to corroborate the findings of this study. The list of experts includes (i) accountants (chartered and chartered certified accountants – i.e. reputable licensed accountants, that are chartered degree holders, practicing in Pakistan), (ii) academicians (scholars, having extensive research work in the field of Islamic banking and accounting, associated with reputable educational institutes in Pakistan), and (iii) bankers (reputable Islamic bankers and Shariah auditors working in managerial posts in IFIs in Pakistan). The quality of the presentation of the Islamic products is analyzed from the results of the survey relating to the qualitative characteristics. The determinants for each of these variables (Appendix 1) are adapted from Tsoncheva (2014) and the quality of accounting information is assessed using a scorecard populated from the indexation of the responses received from the expert survey (Appendix 2). The indexation is computed by dividing the total quality score by the total responses received from the survey. Finally, a t-test is used to check the statistical significance of the difference received in the opinion of the experts.

3.1. Survey Instrument and Sampling Strategy

Primary data is collected through the expert survey (self-administered questionnaires). The questionnaire is prepared from Tsoncheva's identified factors for qualitative characteristics of the financial information (2014). The factors identified by Tsoncheva helped in developing a concise questionnaire that enables the gathering of data in an objective manner. The questionnaire is divided into two sections. Section 1

⁷ The IFAS 1 are issued by Institutes of Chartered Accountants of Pakistan (ICAP), and adopted by SECP via S.R.O 865 (I)/2005 dated 24th August 2005 (SECP, 2005).

relates to the demographic information of the experts, and section 2 relates to the opinion on the presentation based on Islamic and conventional standards for deferred payment *Murabahah*. For section 2, the extracts of the financial statements prepared in this study are used to collect the opinion on the three qualitative characteristics of the financial information (Appendix II). A total of 13 questions are used to collect the experts' opinions.

The convenience sampling method is used for the collection of the survey data owing to the rare availability of such experts in the country. A total of 50 experts were approached for this study, however, responses from 31 participants were received. The smallness of the size of the sample can be attributed to the scarcity of relevant resources in Pakistan. The data extracted from the survey is used to support the conclusions derived from the analysis performed in this paper.

4. RESULTS AND DISCUSSION

The analysis performed in the paper is divided into two subsections; (i) presentation of deferred payment *Murabahah* as per IFRS15 and IFAS 1, and (ii) examining the results of the experts' survey on the financial extracts prepared in subsection (i).

4.1. Presenting deferred payment *Murabahah* (credit sale) as per IFRS15 and IFAS1

To examine the presentation of a deferred payment *Murabahah* product, a hypothetical example (test data) has been used (Appendix 3).

Treatment as per IFAS 1:

Assuming that the closing process for the accounting cycle is done annually by the IFI, the IFI will first record the purchase of the *Murabahah* asset, after which the IFI will record the sale of that asset, and finally, the IFI will record the receipt of the deferred instalments from the customer (Figure 1). The *Murabahah* receivable recorded will be on the invoice amount. The double entries and relevant extracts of the resulting financial statements are presented in Appendix 3.

Treatment as per IFRS 15:

To account for the *Murabahah* transaction following the IASB's framework, there are

three standards relevant to this transaction, IAS 2, IFRS 15 and IFRS 9. This treatment is inconsistent with the treatment followed by Bank Muamalat Malaysia Berhad (BMMA), which was analyzed by Ibrahim and Ling (2016), where the bank was treating Murabahah contracts solely as a financing arrangement, presented as per IFRS 9. In this paper, it is proposed that the Murabahah instrument will be treated as a deferred by (IFRS 15), based on the nature of the contract, which is a trade-based agreement (as the legal form and the economic substance of the transaction are both consistent to that of a sale – thus, the transaction will be seen as a sale from the conventional lens as well). The Murabahah receivables that would arise due to the sale will be treated under IFRS 9 (as it is a debt-based financial asset (PWC, 2017)). However, IFRS 9 allows measuring financial assets under the FVPL model, therefore, our study proposes that the Murabahah receivables will be measured at their fair value (FVPL model, applying level 3 hierarchy (Altamuro & Zhang, 2013)), thus, not following amortized approach as seen in the study of Ibrahim and Ling (2016).

Recording the purchase of the Murabahah asset will be the same under IAS 2, as demonstrated for IFAS 1 (Appendix 3), as IFRS 1 itself refers to IAS 2 when recording Murabahah asset in section 4.3 of the standard (SECP, 2005, p. 10). IAS 2 requires the inventory to be recorded at lower of cost or net realizable value of the asset. Regarding the recording of the sale of the asset, IFRS 15 recognizes the revenue when the performance obligation is fulfilled (IASB, 2014). The performance obligation for this sale transaction is the delivery of the equipment to the client. When this is fulfilled, the IFI needs to record the revenue arising from this transaction. However, in the instalment sales method, the framework allows deferment of the profit arising from the sales to give a true and fair view of the accounts (Putra, 2012). This is in accordance with the prudence concept of the IFRS framework (Brag, 2017). In this approach of revenue recognition, the resulting profit will be deferred, as in the case of IFAS 1.

Therefore, the treatment of this product under IAS 2, IFRS 15 and IFRS 9 will be the same as the treatment guided under IFAS 1. This is consistent with the study conducted by Mohammed, Ahmad, and Fahmi (2016), concluding that Islamic accounting standards are based on the IFRSs. The extracts of the financial statements over the 12 months are

available in Appendix 3, demonstrating there is no significant difference in the presentation of the information whether IFRSs or IFASs are applied.

The overall result of the presentation of the deferred payment Murabahah (credit sale) item, under IFRSs and IFASs, is shown below:

Table 1. Deferred Payment Murabahah (Credit Sale) Presentation			
	IFI Buying Murabahah Asset	IFI Selling Murabahah Asset	IFI Recording Murabahah Installments
Under IFAS 1	Will be treated as inventory of IFI, IFAS 1 refers to IAS 2 for its accounting treatment.	Will be treated as a credit sale; the title of the asset will transfer to the customer de-recognizing the asset as its inventory.	IFAS 1 states to record the Murabahah receivables on the value of the invoice.
Under IFRSs	Will be treated as inventory of IFI, relevant standard applicable will be IAS 2.	The legal form and economic substance of the transaction is that of a credit sale, thus IFRS 15 will be applied following installment sales method that allows deferred of the profit.	The sale of the Murabahah asset gives rise to financial asset of the IFI that will fall under the scope of IFRS 9, which allows financial assets to be measured at: <ul style="list-style-type: none"> • Fair value (standard gives the option for FVTP) • Amortised cost
Results	No inconsistency in reporting.	No inconsistency in reporting.	No inconsistency in reporting if FVTP model is followed. Measuring the receivables on amortised cost will give rise to finance income in SOPL.
Sources: Author			

The main issue highlighted in the theoretical presentation of a deferred payment Murabahah instrument is when measuring the Murabahah receivables. As all the Islamic products are interest (riba) free, measuring the receivables following amortized cost approach will give rise to finance income. However, in this study, it is proposed to instead measure the Murabahah receivables under the FVPL model (allowed by IFRS 9 even if amortized cost approach tests are passed by the financial asset (IASB, 2014)). Under this approach, the IFI will have to apply IFRS 13. Theoretically, this approach will

not lead to any inconsistency with Shariah principles (as Murabahah receivables will fall under level 3, as the inputs are unobservable). The IFIs will be using their cash flow projections to value the Murabahah receivables. As future cash flows will equal the invoice amount, IFIs will be able to value Murabahah receivables on invoice amounts. Even if the IFIs measure their receivables on amortized cost, the finance income arising would be due to the application of EIR when unwinding the present value of the receivables. Such an approach is followed by zero-coupon bonds as well that do not pay any real interest on the instrument. Following the FVTP model exposes the IFI to complexity and subjectivity in accounting. Moreover, IFRS 13 might also require discounting of the cash flows if the period of Murabahah instalments is substantially long. However, as explained earlier, the resulting finance income in the SOPL will not be due to actual interest, but the application of EIR.

4.2. Results of the Expert Survey

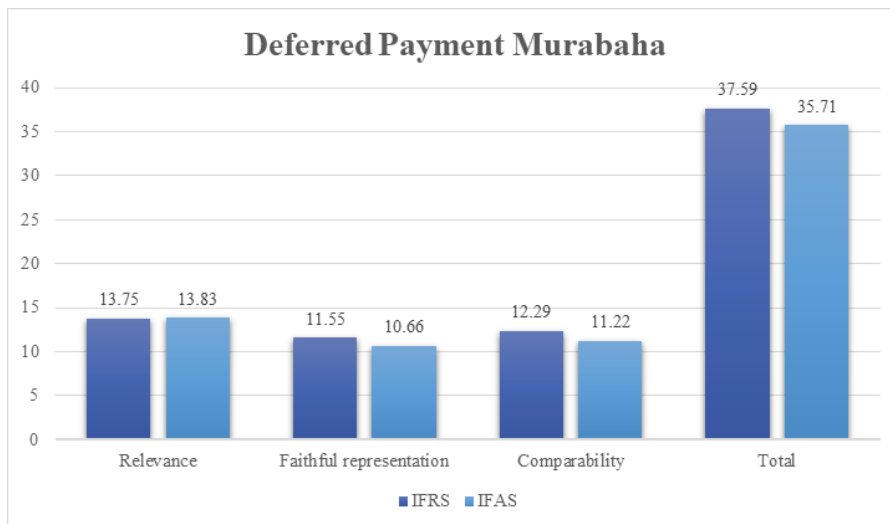
The results summarized in Appendix 4 show the demographic details of the sample selected for the study. This details the profession, qualifications, expertise, designation, and experience of the experts. The sample consisted of 42% accountants, 19% academicians and 39% bankers. Among these, 44% of the experts were qualified accountants, 39% were experts in the field of accounting, and 30% were experts in the field of Islamic finance. In terms of their experience, 35% of the experts had an experience of more than 10 but less than 15 years, whereas 23% of the experts had more than 15 years of experience.

To enable a comparison, the total score collected from the experts' ratings of the qualitative characteristics was converted to an average index. The results of the indexes are summarized in Table 2.

Table 2. Deferred payment Murabahah characteristics indexation summary

	Index			
	Relevance (R)	Faithful representation (F)	Comparability (C)	Total
IFRS	13.75	11.55	12.29	37.59
IFAS	13.83	10.66	11.22	35.71
Difference	0.08	0.89	1.07	1.88
Source: Author				

The data from the table above can be visually presented in the graph as follows:

**Figure 2. Deferred Payment Murabaha Indexation Comparison**

Source: Author

Figure 2 shows that the total indexation score for IFRS presentation is higher, which indicates that in the opinion of the experts, the presentation of the IFRS is better as compared to the IFAS. Evaluating the three characteristics separately, the experts give approximately equal scores for relevance of the financial data presented (a difference of only 0.08 index points). However, the score of faithful representation and comparability is superior for IFRS 15, as compared to IFAS 1. Although the presentation resulting from the application of these two standards is remarkably similar, the IFRS framework can help achieve an overall global consistency for the institutions. This can be a reason

experts gave a higher index or scoring to IFRS 15. This finding contradicts the conclusions drawn by Ibrahim and Ling (2016), claiming that the IFRSs are too shallow to report complex Islamic products. However, the overall difference in the index for deferred payment Murabahah is extremely low (a difference of only 1.88 index points). This is because the presentation of this product under the two standards is quite similar (Appendix 3), which is consistent with the conclusions drawn by Mohammed, Fahmi, and Ahmad (2019).

Figures 3, 4 and 5 give us further insight into the indexation scoring, this enables a more in-depth comparison of these three characteristics.

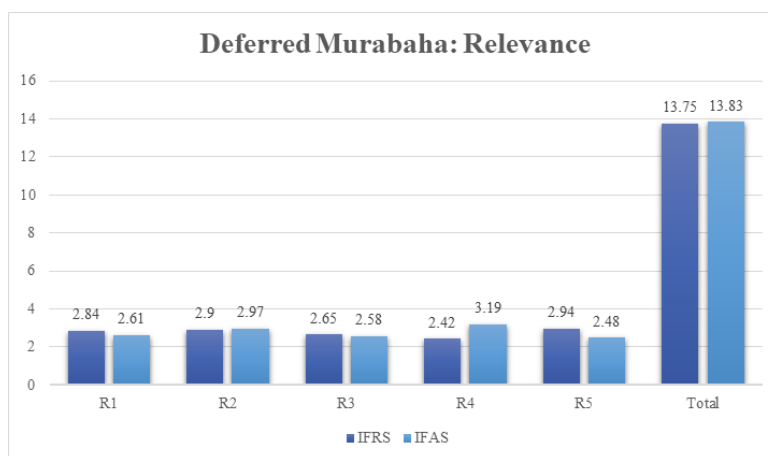


Figure 3. Relevance Comparison (Deferred Payment Murabaha)

Source: Author

Figure 3 shows the difference in the indexation scoring of relevance is approximately nil (only 0.08 index points). It also shows that scoring for IFAS 1 is higher for R4, which asked the experts to rate the presentation by focusing on Shariah compliance. This indicates that the experts believed IFAS 1 enables better Shariah compliance. This is consistent with the results obtained by Mohammed, Fahmi, and Ahmad (2019). However, for question R5, IFRS 15 was able to score higher index points, as compared to IFAS 1. This question asked whether the financial information was free from material misstatement or omission. This superiority of IFRS over IFAS can be attributed to the fact that IFRS 15 is a result of convergence project between IASB and FASB. This

project is aimed at reducing the inconsistencies among the financial reporting standards applied under rules-based and principles-based approaches.

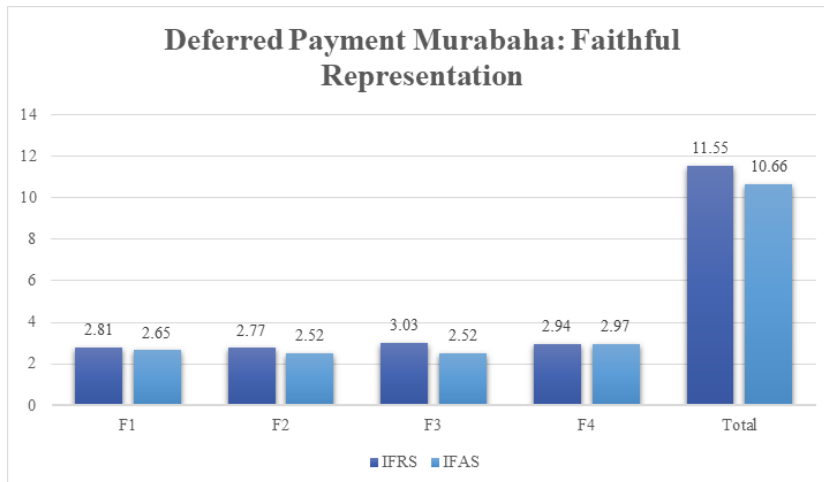


Figure 4. Faithful Representation Comparison (Deferred Payment Murabaha)

Source: Author

Shifting our focus to the comparison of faithful representation (Figure 4), all the index scores demonstrate superiority for IFRS 15, except for F4, which asked the experts to rate the presentation based on neutrality (free form bias). Although the difference is extremely low (only 0.03 index points), this demonstrates that experts believe that presentation of IFAS 1 is more neutral. The highest difference among the scoring is in F3, which focused on prudence⁸ of the presented financial information, demonstrating that the presentation of IFRS 15 is perceived to be more prudent by the experts. Figure 4 also demonstrates that in the opinion of the experts, IFRS represents financial information more faithfully than IFAS (overall indexation score difference of 0.89). This is consistent with the results obtained by Atmeh and Serdaneh (2012), although their research focused on the product of Ijarah Muntahia Bittamleek (IMBT), their results corroborate with the results derived for deferred payment Murabahah in Figure 4.

⁸ Information presented should not understate liabilities or overstate assets.

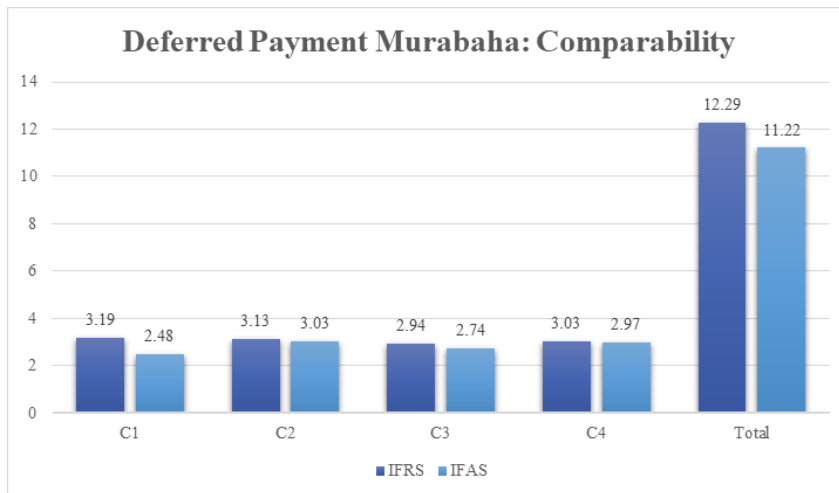


Figure 5. Comparability Comparison (Deferred Payment Murabaha)

Source: Author

Figure 5 shows the comparison of the final qualitative characteristic (comparability), where IFRS 15 has a higher score or index for all the questions (C1 to C4). Comparability demonstrates the highest difference in the indexation score as compared to the other two qualitative characteristics (overall difference of 1.07). The highest difference for comparability can be seen for C1 (difference of 0.71), which asked the experts to evaluate consistency between financial and non-financial sectors at the global level. The IFRS framework advocates global consistency and comparability, which is the reason for the superiority of IFRS over IFAS in this final area.

Figures 6 and 7 show us a comparison of the indexation of these three professions used to collect the opinion.

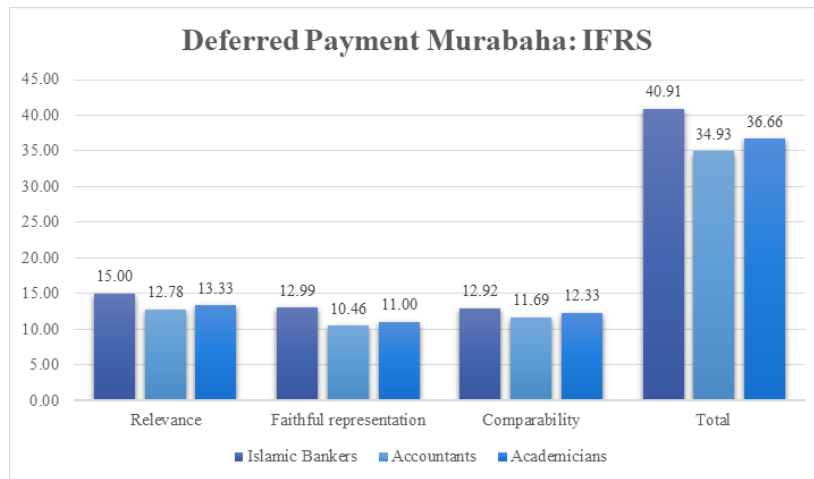


Figure 6. IFRS Index Based on Profession

Source: Author

Figure 6 shows that Islamic bankers rate all three characteristics of IFRS 15 higher as compared to the accounts and academicians. The reason for this might be that both the presentations are remarkably similar, thus, all three characteristics are quite similarly depicted in the presentations. The total index for IFRS 15 is highest for Islamic bankers (index score of 40.91), followed by academicians (index score of 36.66); and finally, it is the least for accountants (index score of 34.93). This shows that the IFRS 15 is most scrutinized by practicing accountants. This also indicates that in the opinion of Islamic bankers, the IFRS 15 does present relevant information, meaning that the Islamic bankers show relatively higher acceptance of the IFRS framework in this case.

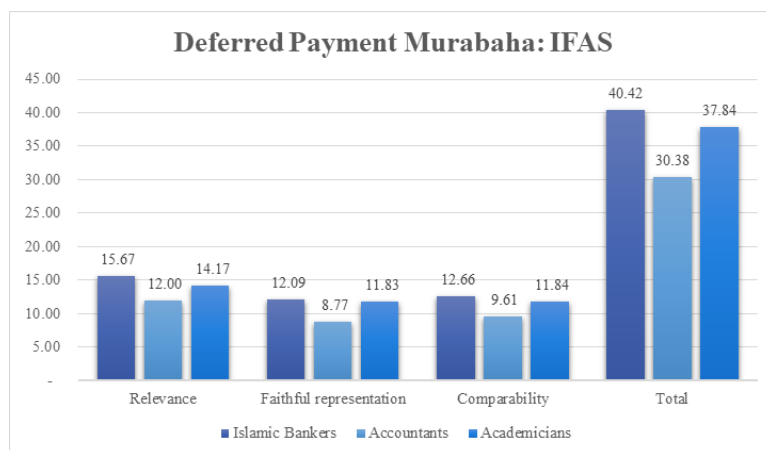


Figure 7. IFAS Index Based on Profession

Source: Author

Figure 7 shows the comparison of indexation for IFAS 1. Here, the accounts show the lowest indexation for all the three characteristics of the financial information presented using IFAS 1 (indexation score of 30.38) and the highest level of indexation is shown by the Islamic bankers (indexation score of 40.42). As the Islamic bankers show a total index of 40.91 for IFRS 15 (Figure 6), therefore, the score for IFRS 15 is higher by 0.49 index points for the Islamic bankers. This indicates that Islamic bankers prefer the presentation of IFRS 15, over IFAS 1. The highest indexation score for IFAS 1 from Islamic bankers is received for relevance, meaning that the Islamic bankers believe that the information presented using IFRS 1 is more relevant. Whereas the accountants believe that the financial information presented using IFAS 1 (8.77 index score – Figure 7) is not as faithfully represented as in the case of IFRS 15 (10.46 index score – Figure 6).

To summarize the results obtained from the experts' survey, the slight superiority of IFRS 15 relates to the fact that the adaption of the IFRS framework can enable general consistency over the global market. However, even though IFRS 15 has a slightly higher overall index score, the experts are still of the opinion that IFAS 1 ensure better Shariah compliance for deferred payment Murabahah. The summary of the difference in the indexation score by experts is presented in Table 3:

Table 3. Summary of Indexation Score of Experts			
Expert Group	IFRS Indexation Score	IFAS Indexation Score	Difference
Islamic bankers	40.91	40.42	0.49 (IFRS higher)
Accountants	34.93	30.38	4.55 (IFRS higher)
Academicians	36.66	37.84	1.18 (IFAS higher)
Total (Figure 2)	37.59	35.71	1.88 (IFRS higher)
Source: Author			

From the summary shown above, academicians show a preference for IFAS 1, whereas Islamic bankers and accountants show a preference for IFRSs. The preference for IFAS 1 by academicians can be due to several reasons, including the ambiguity over

the measurement of Murabahah receivables after the sale of the asset and overall perception of the users, which is consistent with the conclusions drawn by El-Halaby, Albarrak, and Grassa (2020).

4.3. Evaluating the Statistical Significance of Difference between Experts' Opinion

The result of the t-testing performed is shown in Table 4.

Table 4. T-test of difference between experts' opinion	
P-Value	0.2519
Level of significance is at 5% or 0.05	
Source: Author	

The result obtained from the t-test is rather interesting and consistent with the understanding developed. The P-value is 0.2519, which is higher than our level of significance (0.05). This means we are NOT able to reject our null hypothesis. Thus, it can be concluded that there is NO significant difference between the quality score given by the experts on the presentation (following IFRSs and IFAS 1) for the deferred payment Murabahah. The main reason for this is that is no significant difference in the accounting treatment of IFRSs and IFAS 1. Therefore, the opinion of the experts does not show a significant difference as well. This result is consistent the study conducted by Morshed (2022); and Mohammed, Fahmi, and Ahmad (2019), concluding that IFRSs are feasible for the reporting of IFIs.

5. CONCLUSION

Overall, the indexation score of the IFRS framework is higher than the IFAS 1 adopted by SECP, indicating that the experts believe the three characteristics being examined in this study are better approached by the IFRS framework in general. The major limitation identified for IFAS 1 is the lack of global consistency and comparability and the IFRS framework fills this gap. This indicates that there might not be a need to create a separate set of accounting standards for the IFIs, as the current IFRS framework might effectively suffice the needs of IFIs. The t-test shows that the difference between

the experts' opinions is not significant, this is because the treatment as per IFRSs and IFAS 1 is remarkably similar. Thus, it can be concluded from the study that as reporting of deferred payment *Murabahah* shows no significant difference, financial information presented under IFRSs and IFAS 1 will have similar impact and quality. Therefore, the reporting of the IFIs can be harmonized. This conclusion contradicts the findings of Ibrahim and Ling (2016).

Based on the conclusions drawn, it is recommended that IFIs in Pakistan should adapt the IFRS framework, as in the case of Malaysia, for the presentation of the financial information of the IFIs. The focus of the regulatory and accounting bodies functioning in Pakistan should be to improve the existing accounting standards being applied globally and take an active part in the convergence project of IASB and FASB. Any inconsistencies and limitations of the IFRSs should be discussed on global platforms to improve the quality of the IFRSs, filling any identified gaps by specifically focusing on the accounting for Islamic products. The Institute of Chartered Accountants of Pakistan (ICAP)⁹, together with AAOIFI should raise these concerns on such global platforms, ensuring that the IFRS framework incorporates needed guidelines for IFIs. This will enable global consistency and comparability between the IFIs and conventional institutions. This corroborates the recommendations derived by Morshed (2022); and Mohammed, Fahmi, and Ahmad (2019).

Additionally, to remove the ambiguity around the application of standards at distinct phases of the *Murabahah* transaction, regulatory and accounting bodies should devise a handbook to help local IFIs apply conventional accounting standards. This handbook should also highlight the options that IFIs can take in case the conventional accounting standards allow choices in the measurement and reporting of financial products (for example, IFRS 9 allows measurement at amortized cost and FVPL). This will ensure that the presentation covers the substance of the transactions.

Areas identified for further research include comparing the presentation of other products offered by IFIs, aside from deferred payment *Murabahah*. Studies can also focus on other aspects of accounting (initial and subsequent recognition, and disclosure

⁹ ICAP is the body that regulates the accountancy profession in Pakistan (ICAP, 2022).

requirements), and on other qualitative characteristics (prudence, understandability, reliability, timeliness). The impact of the FVPL model on measuring *Murabahah* receivables should also be evaluated for a longer period, highlighting the issues that IFIs might encounter when valuing the financial asset at fair value (i.e., applying IFRS 13 on *Murabahah* receivables). Additionally, the fact that zero-coupon bonds are measured at amortized cost, where there is no actual payment or receipt of interest, indicates that the application of amortized cost model might not violate *Shariah* principles relating to reporting of financial products, this notion needs to be further explored and examined as well.

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