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The Presentation and Disclosure of Islamic Banks' Financial Statements: A Comparative Analysis of IFRS and AAOIFI Financial Accounting Standards

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Abstract

Financial reporting is a formal recording of transaction and activities of a financial entity. The demand for standards in financial reporting started way back before introducing the Malaysian Accounting Standards Board (MASB). A comparative analysis of the presentation and disclosure of Islamic banks' financial statement based on IFRS and AAOIFI financial accounting standard (FAS) is essential in explaining Islamic banks' reporting and compliance. Therefore, this study was conducted to compare the two accounting standards and their effectiveness in different Islamic banks. A critical literature review showed the origin and different opinions of several studies about IFRS and AAOIFI FAS. This study adopts semi-structured interview which has been conducted with industry practitioners and academicians to investigate the underlying issues in general on the different reporting based on the two standards, particularly on the reporting and disclosure of the profit-sharing investment accounts. The results show that IFRS focuses on reporting the economic substance of transactions, while the AAOIFI focuses on ensuring the IFIs regulations adhere to Shariah laws. The AAOIFI has been unwelcoming to two concepts in the IFRS, the time value of money and substance over form. © 2023, The Author(s), under exclusive license to Springer Nature Switzerland AG.

Author Keywords

AAOIFI accounting standard; IFRS; Islamic banks; Profit-sharing investment account

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