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## Comparative Study of Judicial and Legal Indicators of Financial Entities in Islamic Law

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### Abstract

In comparison to the International Accounting Standards Board's (IASB) conceptual framework for financial reporting, the article compares the conceptual framework of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) for financial reporting of Islamic financial institutions. The study's goal is to conduct a thorough analysis of the AAOIFI's conceptual framework for Islamic financial institutions' financial reporting in comparison to the IASB's conceptual framework. Using comparison, collation, analysis, and synthesis techniques as well as logical and systematic approaches, the authors were able to distinguish between the two documents' differences that reveal the conceptual framework of financial reporting. The main contentious issue, according to the analysis of the scientific problem of the AAOIFI conceptual framework for financial reporting in the Islamic accounting model, is the integration of Islamic accounting standards with national accounting and reporting systems. The absence of publications on the comparison of financial reporting prepared in accordance with Islamic principles and IFRS in Russian significantly complicates the promotion of this discussion. The article also compares and contrasts the regulatory documents that control the theoretical foundation of financial reporting for Islamic and conventional economic systems. The authors drew several conclusions from the findings. First, it is established that the development of conceptual frameworks for both IASB and AAOIFI has the same objective of boosting user confidence in financial reporting. Second, it is made clear that the conceptual framework for financial reporting based on Islamic principles differs significantly from the conceptual framework for IASB financial reporting as a result of the incorporation of Shariah (Islamic law). The article also investigates how Shariah regulations are incorporated into the AAOIFI Conceptual Framework for Financial Reporting by Islamic Financial Institutions. In order to secure the status of Islamic financial institutions, define specific terms, consolidate the goals of financial accounting and reporting, introduce requirements for the nature of operations and transactions of Islamic financial institutions, and broaden the quality characteristics of information in accordance with Shariah, the following methods were identified: proclaiming the priority of Shariah norms, establishing the powers of the Central Shariah Council, securing the status of Islamic financial institutions. The study's findings are contrasted with previous research on the subject that has been published.

**Keywords:** Legal Entities, Legal indicators, Islamic principles, conceptual framework, Islamic financial institutions, international financial reporting standards, financial reporting

### Introduction

Every year the Islamic financial system spreads its influence not only in the countries of the East, but also in Russia, where the Republic of Tatarstan occupies a leading position in the number of Islamic financial organizations. In addition, some traditional financial institutions, along with conventional financial services, are beginning to provide

services in accordance with Islamic principles. The crisis conditions, economic instability, pandemic and many other "external threats" have exposed the fragility of the traditional financial system, identified its weaknesses and problems with social responsibility. Customer confidence in the traditional financial system is falling from year to year, so the general public is looking for alternatives, one of which is a business according to Islamic principles. The traditional and Islamic financial systems are based on information generated in accounting and reflected in financial reporting. It is key for investors when deciding whether to invest in the company, and the top management of the company uses this information both for operational management and for strategic planning. Accordingly, the quality of the information reflected in the financial reporting is paramount in decision-making by both investors and senior management personnel. The criteria for the recognition, assessment and presentation of information are formed by the following documents:

1. Organization for Accounting and Auditing in Islamic Financial Institutions (AAOIFI) conceptual framework for Islamic financial institutions' financial reporting. This document, which was updated in 2020, specifies the standards for the acceptance, evaluation, and presentation of data by Islamic financial institutions in a number of East Asian nations where its use is required.
2. the International Financial Reporting Standards Board's (IASB) conceptual framework for financial reporting. The criteria for information recognition, measurement, and presentation for businesses that have chosen, for whatever reason, to present their financial statements in accordance with IFRS are contained in this document. The document is valid throughout Russia.
3. Framework for General Purpose Financial Reporting by Public Sector Entities, created by the International Public Sector Accounting Standards Board. The document lays out the standards for the identification, evaluation, and presentation of information for organizations in the public sector. The Russian Federation also developed and adopted the Federal Accounting Standard for Public Sector Organizations "Conceptual Framework of Accounting and Reporting of Public Sector Organizations" in 2017 on the basis of this document.

Despite these measures, the debate over the methods for recognizing, evaluating, and presenting information does not end, so it is entirely up to scientists and working financiers and accountants to adapt the conceptual framework for reporting to the new business circumstances. The Umarov Kh. articles. S. (Umarov, 2014) and Sh. Shovkhalov. A. The prospects for the growth of Islamic finance in the Russian context are examined by (Shovkhalov, 2018), taking into account the conceptual framework for the preparation and presentation of the statements, which is regarded as a set of accounting standards developed by the Organization for Accounting and Auditing in Islamic Financial Institutions (AAOIFI). Kharisova F.'s creative works. I. Umarov Kh. and (Kharisova, Yusupova, and Kharisov, 2018). S. (Umarov, 2019) details the requirements for the standard of information disclosed in financial statements as well as the accounting standards created by AAOIFI for Islamic financial organizations. Dorofeev M.L. (Dorofeev & Griban, 2020) analyzes the contradictions and problems of Islamic finance, suggesting certain solutions to them or indicating the formulation of the problem. Semenova F.Z. (Semenova, 2019) and Stefan M.A. (Stefan, 2017) investigate the essence of the Islamic accounting model, its goals and objectives, identify the most important trends in the modernity of IFRS harmonization and the convergence of Islamic accounting principles with national accounting standards. Danchenko E.A. (Danchenko, 2015) and Kozlova N.N. (Kharisova & Kozlova, 2014) analyze the spread of Islamic financial services in the global market from the end of the 20th century to 2013 inclusively, and reasonably draw conclusions about the prospects for introducing Islamic financial services into traditional economic systems. Bekkin R.I. (Bekkin, 2009) and Kharisova F.I. (Kharisova, Iskhakova & Yusupova, 2018) in their works consider the place and role of Islamic financial instruments in the context of modern economic development in the traditional and Islamic environment. Sidorov V.I. (Sidorov, Salakh Gasim & Gaidei, 2017) focuses on the principles of functioning of Islamic finance, possible options of the impact on the traditional financial system, the possibility of introducing Islamic financial systems into national financial institutions. The works of Akhmadieva G.G. (Derzayeva & Akhmadieva, 2014) and Derzayeva G. G. (Derzayeva, 2020) are devoted to the study of accounting information disclosed in the company's financial statements, its influence on users' decision-making. Studies by Kulikova L. (Lyzhova & Yakhin, 2020) are devoted to the problems of studying the accounting and financial reporting systems existing in the world economy, its influence on each other, as well as the convergence of national accounting systems with each other and with International Financial Reporting Standards.

Abdullova G.R (Kulikova, Abdullova & Lyzhova, 2020) and Safiullin M. R. (Safiullin, Derzayeva & Elshin, 2013) consider the features of the formation of International Financial Reporting Standards, the possibility of its further improvement and implementation in the practice of national economic systems.

The study of the above-mentioned literature gives opportunity to come to the following conclusions.

Firstly, despite the considerable amount of scientific research in the field of the Islamic financial system, it is obvious that it is insufficient.

Secondly, among scientists and practitioners, the subject of discussion is the issue of consolidating the accounting standards of the Islamic accounting model with national accounting and reporting systems.

Thirdly, there are no publications in Russian on the comparative assessment of financial statements compiled according to Islamic principles and IFRS.

## Methodology

Based on the conclusions obtained from the study of the works on the Islamic model of accounting, there is a clear objective to conduct a comprehensive analysis of the AAOIFI conceptual framework for financial reporting of Islamic financial institutions compared with the IASB financial reporting framework.

Two tasks should be set and solved to achieve this objective:

1. To carry out a comparative description of the two regulatory documents establishing the conceptual framework in the Islamic and international accounting models.
2. To consider the ways in which Shariah law has been incorporated into the AAOIFI Conceptual Framework for Financial Reporting by Islamic Financial Institutions.

The following methods are applicable to solve the tasks.

The method of scientific literature analysis is for studying the current state of the scientific research problem.

The method of analyzing the regulatory framework, comparative analysis and rationale when comparing two documents reflecting the conceptual framework of financial reporting in Islamic and traditional accounting models.

Methods of monitoring and statistical analysis in examining the ways in which Shariah law is introduced into the Conceptual Framework for Financial Reporting by Islamic Financial Institutions.

In order to identify the specific features of accounting and financial reporting in the Islamic economic system, a comparative description of two regulatory documents has been drawn up, which reveals the conceptual framework of financial reporting. In the Islamic accounting model, there is a document with the official name "AAOIFI Conceptual Framework for Financial Reporting" (as revised in 2020); in traditional economics, the conceptual framework for financial reporting is set out in the document "Conceptual Framework for Financial Reporting". Comparative analysis of these documents is shown in Table 1.

Provisions	AAOIFI	IASB	Comments
Structure	Purpose, status and applicability. Definitions. Users, Purposes and Limitations of Financial Information. Financial accounting process. Financial statements and reporting institution. Qualitative characteristics of financial information. Shariah principles and rules used as the basis for the conceptual framework. Effective date and transitional provisions.	Introduction. the reason for financial reporting. Qualitative traits of pertinent financial information. Financial statements and the reporting entity. financial statements' components. Recognition and derecognition. Valuation. Information Disclosed and Terminated. capital maintenance concepts. terms explained.	Similarities: in the structure of standards, there are sections that define the scope, definition, recognition, change, disclosure of information. Differences: separate chapters for accounting and for reporting, highlighting the section about the principles of Islam in the document for Islamic organizations.

Conceptual framework objective	Outlining the principles and rules of accounting and reporting that should be the basis of the developed standards.	Establishing principles underlying the preparation and presentation of financial statements for external users.	The objective of the conceptual framework of Islamic organizations is broader, since it includes not only the principles and rules of reporting, but also the accounting itself, and also does not limit the reporting only to external users.
Definitions	There are definitions of elements of financial statements, types of valuation and capital, stakeholders and institutions, specific terms directly related to Islam: mudaraba, qard, zakat and others are given.	There are definitions of elements of financial statements, qualities of information, types of valuation, capital and financial statements, materiality, accounting units, etc.	The list of terms introduced by the IASB is much wider. Even well-known words are defined. The conceptual foundations of Islamic organizations focus on the specific terminology associated with Islam
Users	Primary and secondary users.	Existing and potential investors, lenders and other creditors	Differences in users' grouping
Qualitative characteristics of information	Primary quality characteristics: relevance; the accuracy of the presentation. Additional qualitative characteristics: usefulness for decision-making, transparency, timeliness, comprehensibility, reliability, comparability, sufficiency.	Fundamental quality characteristics: relevance and fair presentation. Qualitative characteristics that increase the usefulness of the information: comparability, verifiability, timeliness and comprehensibility.	There are differences, but not significant ones.
Financial reporting elements	Assets, liabilities, quasi-equity, equity, income, expenses, net profit on quasi-equity, profit or loss, off-balance sheet assets under management	Assets, liabilities, equity, income and expenses	Similarities: assets, equity, liabilities, income and expenses. there is a broader list in the Islamic accounting model
Financial statements and reporting institution	Under the study there are: going concern and periodicity concept, purchasing power of currency	Under the study there are: purpose and financial statements, reporting period, the position from which the financial statements are presented, going concern assumption	In general, the approaches are similar, but the conceptual framework of Islamic organizations introduce the thesis about the purchasing power of currency

Financial reporting components	financial situation report. Profit and Loss Statement. Financial statements that include quasi-equity capital. A statement of equity changes for the owners. Financial statement. When an Islamic financial institution is in charge of allocating Zakat funds, a report on the sources and usage of funds in the Zakat fund and charitable foundation is required. Inform us about the Qard fund's funding sources and use. Statement of Changes in Off-Balance Sheet Assets Managed by Takaful Transaction Reports.	Financial status report. Income statement. Notes to the reporting: - recognized assets, liabilities, equity, income, expenses - unrecognized assets and liabilities - capital flows - contributions and payments from claim holders in relation to equity capital - methods, assumptions and judgments	Similarities: financial status report, statement of financial performance, statement of changes in owners' equity, statement of cash flows. The rest of the reports are different. The AAOIFI conceptual framework provides special reporting forms, including reports on zakat, qard, takaful.
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## Results

Thus, the comparison of the two documents' provisions, regulating the conceptual framework of financial reporting for the Islamic and traditional economic systems, given in Table 1, makes it possible to draw a number of conclusions:

1. Both the IASB and AAOIFI are constantly working to improve the conceptual framework for preparing financial statements in order to adapt accounting and reporting standards to modern business conditions and improve the quality of published information.
2. When developing the conceptual framework for the presentation of financial statements, the IASB focuses on improving the quality of the information provided, terminological accuracy and protecting the interests of users of financial statements. Along with this, when developing the conceptual framework for financial reporting, AAOIFI emphasizes compliance with the principles and rules of Shariah, which is a priority for Islamic financial organizations to follow. Both approaches pursue the same goal of increasing user confidence in the reporting information.
3. The introduction of Shariah law into the conceptual framework of financial reporting by Islamic financial institutions has led to significant differences from the conceptual framework for the presentation of financial statements by the IASB for almost each of the compared provisions:
  - in the structure of the conceptual framework, there is a chapter on the principles and rules of Shariah, used as a basis for the conceptual framework;
  - the very purpose of the conceptual framework of financial reporting has been expanded: it is not only the provision of high-quality information for users, but also the observance of Shariah principles and rules, as a way to increase confidence in the financial reporting of Islamic financial organization;
  - the conceptual framework of financial reporting for Islamic financial organizations include many specific terms directly related to Islam: mudaraba, qard, zakat, etc.;
  - the list of elements of financial statements has been expanded, namely: the conceptual framework for financial reporting by Islamic financial organizations include such elements as quasi-equity and quasi-equity capital;
  - the report is also expanded: the conceptual framework for the financial reporting by Islamic financial organizations include such reports as profit and loss statement related to quasi-equity capital, reports on zakat, qard, reports related to takaful operations.

Thus, the main differences between the Conceptual Framework for Financial Reporting by Islamic Financial Institutions, developed by AAOIFI, and the Conceptual Framework for Financial Reporting, developed by the IASB are due to the introduction of Shariah law. It is important to consider how these norms have been introduced into the document Conceptual Framework for Financial Reporting by Islamic Financial Institutions.

Firstly, "Objectives, Authority and Applicability" document introduces a provision stating that "Compliance with Shariah principles and rules, even in matters related to financial reporting, is of paramount importance for

organizations". Thus, if a contradiction arises between the Shariah and accounting standards, the first is always a priority.

Secondly, the powers of the Central Shariah Council are consolidated as a specialized body of Islamic commercial law, which has powers at the level of national Shariah government and regulates Shariah government. Its purpose is to ensure uniformity and harmony in the theory and practice of organizations operating on the bases of Islamic principles through regulations and guidelines.

Thirdly, Conceptual Foundations of Financial Reporting of Islamic Financial Organizations document establishes the status of Islamic financial organizations. These include a wider range of organizations offering products and services in accordance with the principles and rules of Shariah, and not just Islamic banks and other financial institutions.

Fourthly, the document defines a number of specific terms, including:

mudaraba - is the partnership in profit between capital and labor;

qard - is an interest-free loan designed to allow the borrower to use borrowed funds for a certain period of time with the understanding that the same amount of borrowed funds will be returned at the end of this period;

quasi-equity capital - is an element of financial reporting representing equity contributions received by an institution on a profit-sharing or participatory basis;

zakat - is a religious debt of a Muslim, which becomes obligatory for certain types of wealth and is paid to certain categories of recipients in relation to the current annual period;

Fifthly, the document formulates one of the objectives of financial accounting and reporting as defining the rights and obligations of all relevant parties (partners) in accordance with the principles and rules of Shariah and its concepts of fairness, clarity and compliance with ethical values, as well as relevant laws and regulations.

Sixthly, there is the requirement for the nature of operations and transactions of an Islamic financial organization. The nature of the operations and transactions organization should enable the user to determine the level of compliance with the principles and rules of Shariah and the organization's objectives.

Seventhly, Conceptual Framework for Financial Reporting by Islamic Financial Institutions discusses in detail such a qualitative characteristic of information as fair presentation. This is due to the fact that the concept of "truthfulness" in accounting must correspond to the concept of "truthfulness" in Islam. For this, the document establishes that the information reflecting reliable presentation of the financial performance, results of activities and changes in the financial position of the organization is "truthful", maintains the delicate balance that exists between the concepts of substance and form, and is also neutral. At the same time, the document proves that neutrality or lack of bias towards any group is a concept fully approved by Islamic principles. In addition, there is a detailed discussion of that transactions based on Islamic principles must reflect the essential characteristics, and their respective legal form must correspond to the nature of the transaction, but also to the principles and rules of Shariah. Thus, such a traditional characteristic of information as "correspondence of content and form" has been greatly transformed, namely: not only the essence of the phenomenon and its form must correspond to each other, but also the essence and form of the phenomenon must comply with the Shariah norms.

Eighthly, the document has a separate chapter - Chapter 7 – that is fully devoted to the principles and rules of Shariah, used as the foundation for the conceptual framework of financial reporting of Islamic financial institutions:

Selling involves transferring risks and rewards.

Two transactions in one are not allowed.

Sales contracts executed at a future date are not permitted.

Possession includes physical or constructive ownership.

Debt cannot be sold for cash or receivables.

For all partnerships based on profit and loss, the profit must be known.

Capital must be protected prior to distribution of profits in regimes based on profit and loss.

The holders of quasi-equity accounts and other interested parties involved in the profit and loss are partners and have proportionate ownership of the residual assets.

The time value of money is unacceptable, while the time value of economic resources is acceptable.

The accounting records should be kept in accordance with the highest possible fair value.

Fair value is also the basis for zakat and inheritance.

Outright financial penalties, especially for late payments on debt, are unacceptable.

Offsetting fund balances is not allowed without the consent of the parties.

Investment instruments based on monetary assets cannot be measured at a cost other than nominal value, therefore they cannot be measured at fair value.

Any credit transaction or its equivalent should always be accounted for at cost.

Islamic insurance accounting should be a combination of mutual (for underwriting business) and commercial (for non-underwriting type of investment activity) purposes.

Commission income should be based on a service-related accrual concept that ignores other factors, as it is charged only for the eligible service.

The institution is required to disclose the methodology for calculating profit.

## Conclusions

Consequently, as a result of the study of the scientific base of the Islamic accounting model by analyzing scientific literature, it was concluded by authors that the most heated disputes arise around the issue of consolidating the accounting standards of the Islamic accounting model with national accounting and reporting systems. In addition, the authors' previous works, published in Russian, covering the objects under study, did not highlight the results of the assessment of financial reporting compiled on the basis of financial accounting standards in accordance with Islamic principles. As a result of comparative characteristics of the two legislative documents regulating the conceptual framework of financial reporting for Islamic and traditional economic systems, the authors concluded that both the IASB and AAOIFI approaches in developing the conceptual framework have one goal to increase user confidence in reporting information. It is also summarized that the introduction of Shariah law into the conceptual framework for reporting by Islamic financial institutions led to significant differences from the conceptual framework for presenting financial statements of the IASB for almost each of the compared provisions: structure, conceptual framework objective, definitions, users, qualitative characteristics of information, financial reporting elements, financial statements and reporting institutions, financial reporting components. Using the methods of comparative analysis and logical justification, the article identifies the ways by which the Shariah norms are introduced into Conceptual Framework for Financial Reporting by Islamic Financial Organizations, namely: the priority of Shariah principles and rules, the establishment of the powers of the Central Shariah Council, the consolidation of the status of Islamic financial organizations, the definition of the specific terms: mudaraba, qard, quasi-equity capital, zakat, formulation of financial accounting and reporting objectives, introduction of requirements for the nature of operations and transactions of an Islamic financial institution, expansion of the qualitative characteristics of information in accordance with Shariah norms, recognition of Sharia principles and rules used as the basis for the conceptual framework financial reporting of Islamic financial organizations.

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