



Accounting for Salam – Reviewing the Need for Islamic Accounting Standard

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Abstract: In response to the growth of Islamic finance industry, researchers competingly debate whether the conventional reporting standards suffice capturing the innovative nature of Islamic financial products, which varies in substance from their conventional counterparts. Additionally, current literature lacks a thorough analytical review of the accounting of relatively less popular Islamic financing modes like *Salam* and parallel *Salam*. Addressing this gap, the current study extends existing literature to enable a more holistic assessment of the need for exclusive accounting standards for Islamic financing modes. This study examines the need for exclusivity in two steps. First, a hypothetical example presents *Salam* and parallel *Salam* modes under relevant conventional and Islamic financial reporting standards. Then, experts' opinions are collected on the prepared extracts to calculate quality scores for financial reporting under conventional and Islamic standards. The results show that the conventional reporting standards have a higher quality score than the Islamic financial reporting standard. The study's findings advocate for harmonizing the accounting practices of conventional and Islamic financial institutions, enabling more comparable and consistent financial reporting practices globally.

Keywords: Islamic finance, Islamic accounting, salam accounting, qualitative characteristics, exclusivity, harmonization

JEL Classification: G21, M41, M48

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Introduction

Islamic finance is defined as a banking and financial system that adheres to the principles of Islam. It is a rapidly evolving area in the modern economy and is advocated as a better alternative to conventional finance. Islamic financial products are systematically designed combination of Islamic financial contracts which cater to the specific financial needs and are governed by pertinent Islamic instructions; known as *Shariah*. These instructions include numerous prohibitions for Islamic financial instruments, such as, *Riba* (interest) and *Ghara* (excessive uncertainty) (Usmani, 2005). Therefore, these restrictions make the Islamic financial modes unique and substantially different from the conventional financing modes. Although Islamic Financial Institutions (IFIs) deal in different financing modes than their conventional counterparts, the need for transparency, governance, and corporate social responsibility for IFIs remains the same. As such, the Islamic financing modes need to be reported to the relevant stakeholders in a true and fair manner. This means that the economic substance of the Islamic financial modes needs to be accurately captured in the financial reporting process.

Therefore, considering the importance of quality in the financial reporting process, International Accounting Standards Board (IASB) issued the Conceptual Framework for Financial Reporting (hereinafter referred to as the ‘conventional reporting framework’) (IASB, 2018a). This framework defines the qualitative characteristics the financial information must possess to be useful to the stakeholders. Based on this conceptual framework, IASB has developed financial reporting standards that ensure relevance, reliability, and comparability of the financial reporting process (IFRS, 2025). However, considering the unique nature of the Islamic financing modes, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued the Conceptual Framework for Financial Reporting for Islamic Financial Institutions (hereinafter referred to as the ‘Islamic reporting framework’) (AAOIFI, 2020). Primary reason for issuing the Islamic reporting framework is that literature lacks consensus on the applicability of IFRS financial reporting standards on IFIs. Based on the Islamic framework, AAOIFI has issued Financial Accounting Standards (FAS) to ensure true and fair reporting of IFIs.

It is important to note that the conventional and Islamic reporting frameworks are generally very similar. Furthermore, the qualitative characteristics identified and defined in these two frameworks are also quite similar. However, the financial reporting standards developed based on their respective reporting frameworks by AAOIFI and IASB advocate quite different accounting treatments (see, for example, accounting for *Murabahah* (Kunaifi, Handayati, & Bahri, 2022; Siddiqui,

Khaleequzzaman, & Afzal, 2022b) and accounting for *Ijarah* (Gupta, 2015; Hanif, 2013; Siddiqui, Khaleequzzaman, & Afzal, 2022a; Ullah, 2020)). Therefore, the current literature on the financial reporting of IFIs divides scholars into two schools of thought: (i) those who support exclusive accounting standards for IFIs and (ii) those who prefer harmonization and standardization of the reporting of IFIs with their conventional counterparts.

However, studies comparing the accounting treatments under AAOIFI and IASB standards primarily focus on the most common Islamic financing modes, namely *Murabahah* and *Ijarah*. Thus, the assessment of the ability of the conventional reporting framework to accurately report the financial results of IFIs is confined to these two modes, zooming out modes like *Salam*, *Istisnah*, and *Sukuk*. Although these financing modes are not as commonly used as *Murabahah* and *Ijarah*, nonetheless, to comment on the holistic need for exclusive accounting standards, it is important to consider relatively less popular Islamic modes like *Salam* (and parallel *Salam*). Additionally, current literature is also inconclusive on the need for exclusive accounting standards.

Therefore, this study addresses these gaps by critically examining the accounting of *Salam* and parallel *Salam* modes based on conventional and Islamic accounting standards. The research question that this study attempts to answer is whether the quality of the reported financial information based on conventional accounting standards is superior to the quality based on Islamic accounting standards for *Salam* and parallel *Salam* modes. To help answer this question, the study first uses a hypothetical example of *Salam* and parallel *Salam* for financial presentation using conventional and Islamic accounting standards. The study then gathers the opinion of the experts on the presented financial extracts of the *Salam* and parallel *Salam* modes, using a survey. The findings from the survey are then used to test the hypothesis of the study.

Review of Literature

To understand the importance and need of financial reporting, it is important to comprehend the underlying concept of agency theory (Mitnick, 1975), which states that the management of a corporation works as the agent on behalf of the actual owners (shareholders or principals). As the management is directly involved in the entity's executive tasks, they better understand its performance and strategic direction. Moreover, management also controls the flow of information to the shareholders (Dierkens, 1991). Therefore, financial reporting aims to reduce this asymmetry and ensure that quality information is shared with the shareholders. To address this

need for quality financial reporting, IASB (2018a) issued the conventional reporting framework, and AAOIFI (2020) issued the Islamic reporting framework. Therefore, the financial reporting standards (conventional or Islamic) aim to ensure consist, comparable, and faithful reporting (Hameedi, Al-Fatlawi, Ali, & Almagtome, 2021).

However, the reporting of IFIs may face issues here, where applying conventional accounting standards can ensure comparability, due to the unique nature of Islamic financing modes, these standards might lack the ability to capture the economic substance of the transactions accurately (Abdel Karim, 1995; Ibrahim & Ling, 2016). Similarly, exclusive Islamic financial accounting standards can ensure true and fair presentation, but at the cost of global comparability (Andari, 2019; Mohammed, Mohd Fahmi, & Ahmad, 2019). Nonetheless, portraying a true and fair picture of the company's affairs is critical (Chychyla, Leone, & Minutti-Meza, 2019). Numerous scholars have concluded that conventional accounting standards lack the ability to accurately report the economic substance of the Islamic financing modes (El-Halaby, Albarrak, & Grassa, 2020; Ibrahim & Ling, 2016; Khan, Khan, & Iqbal, 2018; Mohammed et al., 2019; Mukhlisin & Nofianti, 2019). Mostly, the studies have compared the accounting treatment of two most popular Islamic financing modes; *Murabahah* (see, for example, Al-Fasfus, 2018; Ibrahim & Ling, 2016; Mukhzarudfa & Qodri, 2020; Siddiqui et al., 2022b) and *Ijarah* (see, for example, Gupta, 2015; Hanif, 2013; Khalid et al., 2021; Siddiqui et al., 2022a).

Generally, two main factors can be highlighted from the studies that support exclusive accounting standards for Islamic financing modes. First, the inability of the conventional accounting standards to properly capture the economic substance of the Islamic modes (Gupta, 2015; Ibrahim & Ling, 2016). Second, the exclusive accounting standards for Islamic modes enhance the public perception and acceptance of IFIs (Ahmed, Hassan, & Uddin, 2021; El-Halaby et al., 2020; Mohammed et al., 2019).

However, the fact that consistency and comparability play a significant role in making the presented information useful for the users cannot be undermined. Therefore, the proponents of the harmonization of the accounting practices of IFIs with contemporary institutions highlight the similarities between the Islamic and conventional reporting frameworks (Morshed, 2022; Siddiqui et al., 2022b, 2022a; Ullah, 2020).

Generally, literature highlights three main drivers when making a case for harmonizing the accounting practice of IFIs. The first driver is the current inconsistency and incomparability of the financial reporting of IFIs in different jurisdic-

tions (Hussan & Sulaiman, 2016). The second driver is the low volume of literature available for accounting of Islamic financing modes (KPMG & ACCA, 2010). The available contents in the contemporary framework cover complex areas like impairment and recognition of financial instruments (IASB, 2018b), where AAOIFI issued reporting standards currently lack such details. The third driver is the lack of overall consistency and comparability between the reporting of IFIs and their conventional counterparts and non-financial institutions (which follow different standards compared to the IFIs) (Andari, 2019).

Moreover, most studies that have compared the accounting treatments of the Islamic modes under the two reporting frameworks have mainly focused on the popular modes (*Murabahah* and *Ijarah*). Therefore, it is important to critically reassess the possibility of harmonization of the accounting practices of IFIs, by broadening the scope of current literature. Thus, there is a dire need to extend the available literature and cover other Islamic financing modes which are not as thoroughly evaluated in literature.

One of the less popular products that currently lacks critical examination of its accounting treatment is the *Salam* contract. AAOIFI defines *Salam* as a type of sale where delivery of a commodity is deferred in exchange for the spot payment (AAOIFI, 1999). Parallel *Salam* is simply a corresponding *Salam* sale, such that the execution of this second *Salam* contract is not dependent on the first. Usually, the IFI entering into the *Salam* agreement subsequently enters into the parallel *Salam* agreement to sell the commodity received from the execution of the first *Salam* agreement (Mulyany, Indriani, & Indayani, 2022). The difference in the sale prices agreed in the *Salam* agreement and the parallel *Salam* agreement is the margin of the IFI. To guide the accounting of the *Salam* and parallel *Salam* modes, AAOIFI has issued FAS 7 (AAOIFI, 1999). From a contemporary lens, the sale of the commodity through *Salam* can be covered under International Financial Reporting Standard (IFRS) 15: Revenue from Contracts with Customers (IASB, 2018c). However, the subject matter of *Salam* (and parallel *Salam*) can come under the scope of two standards: either (i) International Accounting Standard (IAS) 2: Inventories (IASB, 2001); or (ii) IFRS 9: Financial Instruments (IASB, 2018b), depending on whether it is seen as a trading or financing activity (Ehsan, Khan, & Saeed, 2021).

Unfortunately, there is a lack of available literature that directly covers such practical aspects of the financial reporting of *Salam* mode. Nonetheless, there are two prominent descriptive studies available on the accounting of *Salam*, these include work of Hanif (2014); and Ningsih & Wardayati (2016). These studies explain

the *Salam* agreement's legal structure and how the contract's different stages will be reported in the entity's accounting system. Hanif (2014) explains the accounting treatment of the *Salam* agreement based on a trading contract; as such, it advocates the application of IFRS 15 on the transaction (instead of IFRS 9).

However, the question remains, how can the need for exclusive accounting for IFIs be effectively assessed? Purpose of financial reporting is to remove information asymmetry, therefore, quality of the financial reporting of the two reporting frameworks (Islamic and conventional) can be compared to assess the need for exclusive standards.

If the quality of the conventional accounting standards is superior to that of the Islamic accounting standards, this advocates against the development of exclusive accounting standards for IFIs. There is thorough literature available that evaluates the quality of financial information using the qualitative factors defined in the financial reporting frameworks (Siddiqui et al., 2022b, 2022a; Tsoncheva, 2014). Tsoncheva (2014) uses four qualitative characteristics to measure the quality of financial reporting (these include (i) relevance, (ii) understandability, (iii) comparability, and (iv) faithful representation). Coincidentally, the definition of these qualitative factors is quite similar in Islamic and conventional reporting frameworks (AAOIFI, 2020; IASB, 2018a). Therefore, the hypothesis tested in this study is stated as follows:

The difference in the quality of conventional reporting standards for Salam and Parallel Salam mode is significantly different from, and superior to, the quality of reported financial information through Islamic reporting standard (FAS 7).

Overall, literature makes a compelling case for exclusive accounting standards for Islamic financing modes. However, the competing view of harmonization comments on capitalizing on the similarities between the Islamic and conventional reporting frameworks. Additionally, most of the earlier studies compare popular financing modes like *Murabahah* (Al-Fasfus, 2018; Mukhzarudfa & Qodri, 2020; Siddiqui et al., 2022b) and *Ijarah* (Gupta, 2015; Khalid et al., 2021; Siddiqui et al., 2022a). Therefore, the current literature lacks a thorough analytical review of the accounting of relatively less popular Islamic modes like *Salam* and parallel *Salam*. To provide a more holistic assessment of the need for exclusive accounting standards for Islamic financing modes, it is important to increase the scope of current literature. Therefore, current study addresses these gaps by comparing the quality of the financial information as per Islamic and conventional accounting standards for the *Salam* and parallel *Salam* modes.

Methodology

This is a prescriptive study that, via document analysis of the available Islamic and conventional standards, first demonstrates the accounting of *Salam* and parallel *Salam* modes using a hypothetical example. The financial extracts prepared through this process are then shared with experts to gather their opinions on the quality of the financial information presented.

Characteristics and measures used by Tsoncheva (2014) are adapted for this study. However, this study only includes three qualitative characteristics: (i) Relevance, (ii) Faithful Representation, and (iii) Comparability. The reason for excluding the fourth characteristic used by Tsoncheva (2014) (i.e., understandability) is that this characteristic is measured via factors that are relevant to a complete set of financial statements (for example, how well annual reports are organized and the quality of disclosure information). Therefore, the financial extracts prepared in this study do not provide sufficient details for the experts to comment on the understandability. For the other three qualitative characteristics, Appendix 1 shows the details of the measures used to quantify the quality of the reported financial information.

The experts approached in the study belong to three main groups: (i) Academics (reputable scholars having diverse research work in Islamic and conventional accounting); (ii) Accountants/Auditors (chartered degree holders or certified (licensed) accountants); and (iii) Islamic Bankers (employed by reputable Islamic banks and serving either in *Shariah* auditing, advisory, or reporting). The experts selected for the study require extensive knowledge of both conventional and Islamic accounting and a thorough understanding of Islamic financing modes' legal structure and economic form. This combination is quite rare. Therefore, the study uses a multistage purposive sampling approach to identify the most relevant individuals. The questionnaires are completed through physical or online meetings with experts, as the extracts developed from applying conventional and Islamic reporting frameworks are discussed to ensure high-quality responses.

A total of 50 experts were approached, and 22 responses were received. The study collects data from the experts through a moderated survey. The questionnaire is prepared from the measures for the qualitative characteristics explained in Appendix 1. It is divided into two sections: (i) demographic details of the experts; and (ii) opinion on the quality of the financial reporting of *Salam* and parallel *Salam* as per conventional and Islamic standards. The questionnaire comprises 13 questions on Faithful Representation (5 questions), Relevance (4 questions), and Comparability (4 questions). To reduce the common method bias, reverse scales

are used in three of the questions asked by the experts, one for each qualitative characteristic.

The responses received from the experts through the survey are converted into quality scores by taking the average for the three qualitative characteristics (giving equal weight to each). This quality score helps quantify the quality of the financial information presented based on Islamic and conventional accounting standards.

Finally, the study conducts a one-tailed ‘paired two-sample for means t-test’ to examine the statistical significance of the difference in the experts’ opinions. This is done under the assumption that if there is no significant difference between the quality scores of Islamic and conventional accounting standards, then the findings would favor harmonizing the accounting practices of IFIs. However, if the difference in the quality score is significant, then if the quality of the Islamic standards is superior to the conventional standards, the results would favor exclusivity. Otherwise, the results would again favor the possibility of harmonization. The overall methodology of the study is presented as follows:

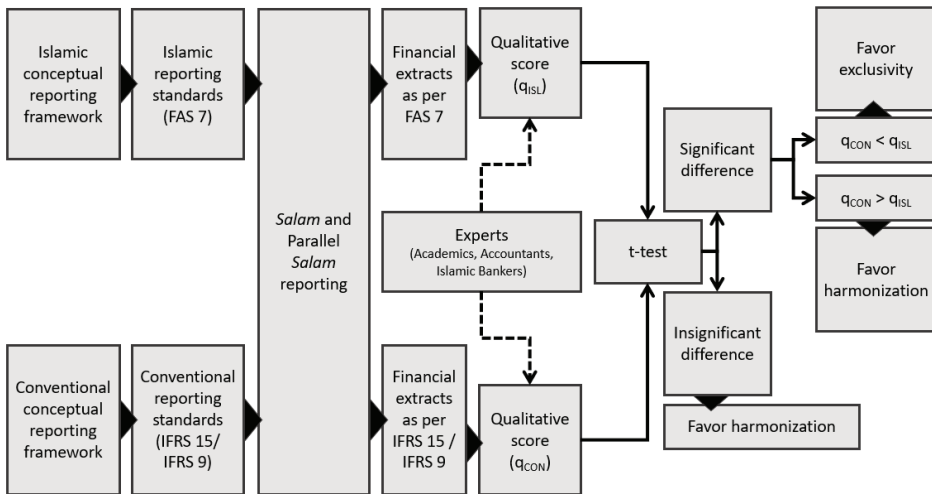


Figure 1: Methodology Summary

Source: Author

Note: The figure shows the summary of the methodology adapted to answer the research question. First, the study prepares extracts of financial information by applying Islamic and conventional reporting standards on Salam and parallel Salam modes. Experts are approached to collect opinions, quantifying the quality of the reported financial information. Finally, t-test is used to assess if the quality of conventional accounting standards is superior and significantly different from the Islamic accounting standards.

Analysis

Reporting of *Salam* and parallel *Salam*

Applying Islamic standard (FAS 7)

The relevant Islamic standard that applies to *Salam* and parallel *Salam* transactions is FAS 7 (AAOIFI, 1999). The standard explains the accounting treatment for both parties. However, the focus of this study is limited to the accounting treatment of IFIs. The standard states that the *Salam* transaction is to be recorded when the advance consideration for the subject matter is paid by the IFI (section 2/1 (AAOIFI, 1999, p. 292)). The standard also states that the value of the *Salam* transaction will be measured by the amount paid. Therefore, the *Salam* transaction will be recorded by IFI as an advance against *Salam*. For parallel *Salam*, the standard states that the transaction should be recorded when IFI receives advance consideration for the subject matter (section 2/2 (AAOIFI, 1999, p. 292)). Therefore, the parallel *Salam*¹ transaction will be recorded as a liability of the IFI (section 2/4/(c) (AAOIFI, 1999, p. 263)). No complication arising from impairment is assumed, therefore, *Salam* inventory appears subsequently at cost, in the statement of financial position (SOPF). Finally, IFI delivers the asset and satisfies the performance obligation recorded due to the parallel *Salam* contract. The standard states that IFI can record a profit or loss arising on the parallel *Salam* transaction upon the delivery of the subject matter (section 2/8 (AAOIFI, 1999, p. 265)).

Applying conventional standards (IAS 2, IFRS 15, IFRS 9)

Before applying the conventional standards on the *Salam* and parallel *Salam* mode, it is important to consider its legal form and economic substance. If the transaction is seen as financing, IFRS 9 (IASB, 2018b) becomes relevant to *Salam* commodity. However, if the transaction is of a trading nature, then IAS 2 (IASB, 2001) becomes relevant. The accounting treatment under both these standards can be substantially different. It can be argued that executing the parallel *Salam* contract can change the economic substance of the *Salam* transaction (Ehsan et al., 2021). Even though the two transactions are independent and not contingent, they are closely related (Waluyo & Rozza, 2020). If this is the case, then the commodity received by the IFI

1 The hypothetical example in the current study structures a parallel Salam on the next day of the Salam contract. This is done in order to simplify the transaction and remove the issue of accounting for off-balance sheet transactions under IFRS framework.

from the *Salam* contract can be seen as financing activity, especially if the customer acts as an agent (*Wakalah* contract) to sell the commodity to a third party on behalf of the IFI. The economic substance of such a combination (*Salam* → parallel *Salam* → *Wakalah*) can be effectively seen as seller selling the *Salam* commodity to ultimate buyer and receiving the financing from IFI.

However, it is important to consider the legal structure of the *Salam* and parallel *Salam* contracts to reassess the economic substance. The IFI assumes the risks and rewards of the *Salam* commodity, as the receipt of the subject matter is one of the requisites of the *Salam* mode (section 4/8 (AAOIFI, 1999, p. 272)). Considering this argument, this study proposes to treat the *Salam* commodity as the inventory of IFI and applies IAS 2 to its reporting. Regarding subsequent measurement, FAS 7 states to value the inventory at lower of cost or cash equivalent value, and IAS 2 states to value inventory at lower of cost or net realizable value (NRV) (it can be argued that the ultimate value from both these measurements will be same).

The advance against *Salam* and the performance obligation against parallel *Salam* will be treated as financial asset and financial liability under IFRS 9 (IASB, 2018b), respectively. Assuming that the costs involved are administrative, the initial recording of the advance against *Salam* and the performance obligation against parallel *Salam* will be the same as under FAS 7 (i.e. at cost). However, the subsequent measurement of these items can differ. As advance against *Salam* is a debt-based financial asset, the standard states that if it meets two tests², then it must be measured under amortized cost (AC) model (IASB, 2018b). However, the standard also allows measuring the financial asset at fair value through profit or loss (FVPL). Under this approach, the financial asset is subsequently measured at its fair value, and any difference in the fair value is recorded in statement of profit or loss (P/L). Considering that *Salam* and parallel *Salam* modes are short-term financing modes for IFIs, the value under the AC approach, FVPL approach, and FAS 7 will be the same. Moreover, IFIs have the option to select FVPL³ approach. Under this approach the accounting treatment will be closer to FAS 7 even in cases of long-term financing modes. The financial liability arising due to the parallel *Salam* transaction will be subsequently measured at AC (PwC, 2017). Under this

2 These two tests are (i) Business Model and (ii) Contractual Cash Flow Characteristics (IASB, 2018b).

3 Under this approach, the fair value will be measured as per IFRS 13 – Fair value measurement (IASB, 2011).

approach, the item will be discounted at its present value and subsequently unwidened through an effective interest rate (EIR) that can give rise to finance costs in the P/L (IASB, 2018b). However, this will only be true if the contract has a long maturity. The present value of the item in short-term financing will be very close to its future value. Moreover, even if the finance charge arises in the P/L, this will not be due to interest, but rather application of EIR, which is consistent with valuing zero-coupon bonds⁴. Table 1 summarizes the accounting treatments of *Salam* and parallel *Salam*. To conclude, the accounting treatments under Islamic and conventional accounting frameworks do not significantly differ in presenting the *Salam* and parallel *Salam* contracts.

Table 1

Summary of reporting of Salam and parallel Salam

Area	Islamic standard	Conventional standards	Result
<i>Salam</i> inventory	Measured at lower of historical cost and cash equivalent value.	Measured at lower of cost and NRV as per IAS 2.	No difference
Advance against <i>Salam</i>	Measured at the amount paid with provision allowed in case the value of the <i>Salam</i> commodity is expected to decline.	Measured under the FVPL approach as per IFRS 9.	No difference (for short-term financing)
Performance obligation under Parallel <i>Salam</i>	Measured at the amount paid with provision allowed in case the value of the <i>Salam</i> commodity is expected to decline.	Measured under AC approach as per IFRS 9.	No difference (for short-term financing)

4 There is no actual interest paid on the instrument, but the finance charge still appears in the P/L due to the unwinding of the instrument (IASB, 2018b).

Recognition of revenue	Recorded as the revenue earned from the parallel <i>Salam</i> after netting <i>Salam</i> financing.	Revenue recorded as per IFRS 15, revenue recognized when the performance obligation arising from parallel <i>Salam</i> is settled. The <i>Salam</i> inventory is charged as the cost of sales in the P/L.	No difference in the profit reported.
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Source: Author

Note: This table shows the difference in the presentation of *Salam* and Parallel *Salam* modes on each stage of transaction, when applying conventional and Islamic accounting standards.

Results from the expert survey

Table 2 shows the summary of the quality scores received from the expert survey:

Table 2

Salam and parallel Salam qualitative characteristics score summary

Salam and Parallel Salam	Quality Score			
	Relevance	Faithful representation	Comparability	Total score (Average)
	(R)	(F)	(C)	
IFRS	2.81	3.01	3.13	2.98
FAS	2.90	2.83	2.75	2.83
Difference	(0.09)	0.18	0.38	0.16

Source: Author

Note: This table shows the difference in the total average quality score of presented financial information based on Islamic and conventional accounting standards.

The overall score shows that experts rate IFRSs higher than FAS 7. The overall difference in the score is 0.16 points. The quality score shows that the experts perceive that financial information reported under the IFRS framework for *Salam* and parallel *Salam* modes as superior in quality when compared to the reporting under the Islamic framework. Examining the three qualitative characteristics separately,

score for relevance for the IFRS framework is lower than FAS 7 by 0.09 points. However, the scores received for faithful representation and comparability are higher for the IFRS framework. This indicates that the IFRS framework ensures better consistency and comparability of IFIs operating in different jurisdictions with their conventional counterparts. These findings are consistent with earlier studies like Siddiqui et al. (2022b, 2022a).

The details of the three qualitative characteristics are further investigated in **Figures 2, 3, and 4**.

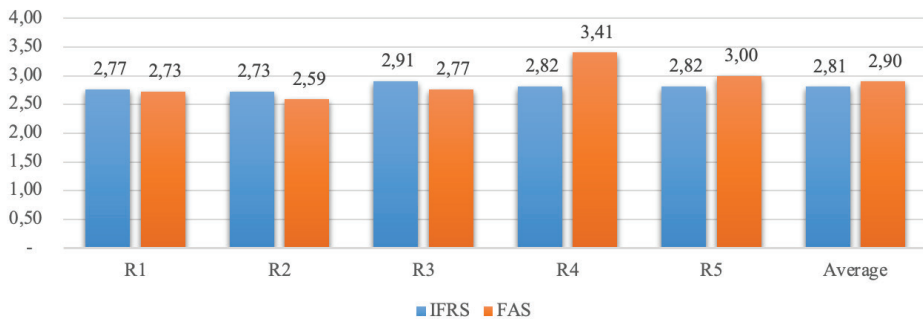


Figure 2: Relevance Comparison (*Salam* and *Parallel Salam*)

Source: Author

Note: This figure shows the quality score based on each question asked regarding relevance of the information presented.

Figure 2 shows that the highest difference in score for relevance is observed in R4, where the experts were asked to rate the *Shariah* compliance of the two accounting frameworks. Experts believe that FAS 7 results in higher *Shariah* compliance than the IFRS framework, which is consistent with the findings of scholars like Ahmed et al. (2021); El-Halaby et al. (2020); and Gupta (2015). One primary reason for this can be that no financial charges or income can arise when applying FAS to *Salam* and *parallel Salam*. However, as explained earlier, it can be argued that the financial charge appearing in case of IFRS 9, would be due to the application of EIR, as highlighted by KPMG & ACCA (2010).

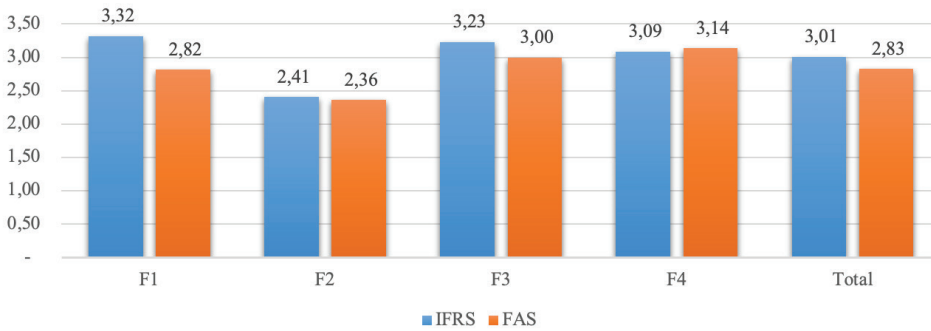


Figure 3: Faithful Representation Comparison (*Salam* and *Parallel Salam*)

Source: Author

Note: This figure shows the quality score based on each question asked regarding faithful representation of the presented information.

Figure 3 shows a breakup of the score of quality given to faithful representation. Here the highest difference is in F1, which asks the experts to rate the reporting in terms of depicting the substance of the transaction. Out of the four questions asked from the experts, only F4 (asking experts to rate the presentation according to neutrality) shows a slightly higher score for Islamic framework (0.05 points), the rest of the questions, F1 (capturing substance), F2 (off-balance sheet) and F3 (prudence), show higher score for IFRS framework. As such, the experts believe that the IFRS framework enables better prudence, which can be because the IFRS framework provides clearer guidance on related matters like fair values (IFRS 13) and impairment (IAS 36).

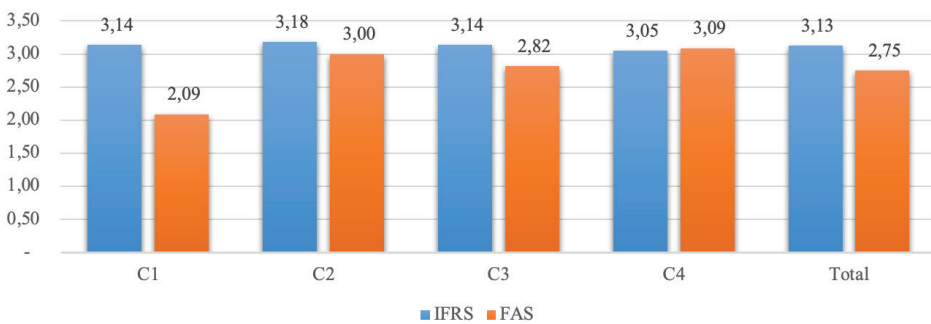


Figure 4: Comparability Comparison (*Salam* and *parallel Salam*)

Source: Author

Note: In this figure we show the quality score based on each question asked regarding comparability of the information presented.

Figure 4 shows the breakup of the quality score for comparability. The highest difference is observed in the score of C1, which asks the experts to rate the financial information based on global consistency. This demonstrates that experts believe the IFRS framework will ensure higher consistency and comparability of the reported financial results. These findings are consistent with the work of Siddiqui et al. (2022a, 2022b).

Table 3 compares the quality scores obtained from the groups of experts (Islamic bankers, accountants, and academics). It shows that the FAS 7 has a higher overall quality score from Islamic bankers, however, accountants and academics rate the IFRS framework superior to the AAOIFI framework. Additionally, if we compare the difference in the scores given by the experts, we see that Islamic bankers give the least difference in the quality score (0.14 points), and accountants give the highest difference (0.21 points). This demonstrates that accountants are most skeptical regarding the AAOIFI’s framework on presenting *Salam* and parallel *Salam*.

Table 3

Summary of quality scores by experts

Experts	IFRS	FAS	Difference	Result
Islamic bankers	2.19	2.33	0.14	FAS Higher
Accountants	3.01	2.80	0.21	IFRS Higher
Academics	3.10	2.94	0.15	IFRS Higher
Total (Figure 2)	2.98	2.83	0.16	IFRS Higher

Source: Author

Note: The table shows a summary of the quality scores for easy comparison. IFRS shows higher quality score for accountants and academics, and FAS shows higher quality score for Islamic bankers. The total average quality score for conventional accounting standards remains higher than the Islamic accounting standards.

Statistical significance of the difference in quality score

The results for the t-test are shown in **Table 4**. These results show that the difference between the responses received is significant at 1%. Therefore, we can conclude that the quality of the conventional and Islamic frameworks is statistically different, where the quality of the IFRS framework is superior to the Islamic reporting framework, for reporting *Salam* and Parallel *Salam* modes. These results are consistent with the findings of Siddiqui et al. (2022a, 2022b) and Morshed (2022); however, they contradict the conclusions of El-Halaby et al. (2020) and Mohammed et al. (2019).

Table 4*T-test: paired two sample for means*

	IFRS	FAS
Mean	2.9818	2.8265
t Stat	2.7309	
P(T<=t) one-tail	0.00626	***

Source: Author

Note: The table shows the results for the t-test, where the hypothesized difference between the mean values of the quality score of conventional and Islamic reporting is nil. The results show that difference between the mean values is significantly different from zero, and the mean of the conventional accounting standards is higher. (***) depicts significant at 1%.

Conclusion, Implications, and Recommendations

From the analysis performed in this study, it may be concluded that the IFRS framework provides higher quality reporting and ensures higher level of comparability for IFIs. The result of the t-test performed advocates that exclusive accounting standards are not needed for reporting the financing modes of *Salam* and parallel *Salam*, and the conventional framework can effectively capture the economic substance of these transactions. Although these conclusions contradict the findings of El-Halaby et al. (2020); Ibrahim & Ling (2016); Khan et al. (2018); Mohammed et al. (2019), but are consistent with the conclusions of Morshed (2022); Siddiqui et al. (2022b, 2022a); Ullah (2020). Additionally, we evaluate the overall quality of the financial reporting based on Islamic and conventional conceptual framework by considering three characteristics (relevance, faithful representation, and comparability). The results show that experts believe conventional framework is superior to the Islamic framework for faithful representation and comparability, whereas, Islamic framework is superior considering relevance of the reported financial information.

Theoretically, this study contributes to the existing literature on the accounting of Islamic financing modes, by linking the quality of financial information with the removal of asymmetry of information between IFIs' management and stakeholders. Therefore, the study broadens the theoretical scope of current literature. From a practical perspective, the quality of the reporting of *Salam* and parallel *Salam* is reviewed considering three characteristics of financial information, which is not done previously for the reporting of IFIs. Moreover, as results strengthen the case of harmonization, it is recommended that standard-setting bodies elevate

the debate of harmonization on global platforms (for example, IASB, AAOIFI, and Financial Accounting Standards Board (FASB)) to enable an effective calibration of the accounting practices of IFIs. This will enable a more comparable and consistent reporting framework for the IFIs globally.

However, the scope of the current study is limited to exploring *Salam* and parallel *Salam* modes only. Future research could focus on accounting for more complex transactions (like *Sukuk* and *Istisnah*) to examine the issues that might appear in applying the conventional reporting framework to them. Secondly, the sample size is relatively small due to a unique blend of required knowledge from the experts. A wider sample, covering the opinions of a more diverse group of experts, would further improve the quality of the need assessment performed in the current study. Finally, the study only examines three qualitative characteristics. Areas like disclosures and treatment of off-balance sheet aspects are ignored from the scope of the current study. Future research can include such ignored areas in the overall assessment of the quality of the financial information presented under conventional and Islamic accounting frameworks.

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Appendix 1 – Qualitative characteristics of financial information, their meaning and determinants

Number	Qualitative Characteristic	Meaning	Determinant	Reference	Explanation
1	Relevance	Existence of a close relationship between the information and the purpose for which the information is presented. (AAOI-FI 8/2; IASB QC6–QC11)	Forecast value (predictive value)	R1	The ability of the presented information to show future cash flows; the extent to which the presented information can be termed as visionary and help with decision making.
			Risk and opportunities	R2	The extent to which the risk and opportunities can be identified from the presented information.
			Feedback	R3	Does the information give proper feedback to the occurred transactions and events in the past?
			Acceptability (by Shariah)	R4	Is the presented information in accordance with the principles laid down by Shariah – the information should not violate any ruling or guideline set forth by Shariah?
			Materiality	R5	Information, if omitted or misstated, can influence the decision of users.

2	Faithful representation	Depicting reality – the information should reflect the economic phenomenon fairly in both words in numbers. (AAOIFI 8/3/1; IASB QC12 & QC16)	Substance and Form	F1	The information should preferably represent the substance and legal form; however, if there is a contradiction between them, the presentation should depict the economic substance.
			On-balance sheet financing	F2	The presented information should depict the financing transactions properly and should discourage the off-balance sheet financing practices that can be used to falsely improve the results and gearing.
			Prudence	F3	The information should be presented in such a manner that the assets are not overstated or liabilities understated so that the results are falsely made more attractive.
			Neutrality	F4	Free from bias and serve common information needs.

3	Comparability	Helping choose between alternatives. (AAOIFI 8/4; IASB QC20–QC25)	Consistency	C1	Is the presented information using the same guidelines used by other institutions around the globe (financial and non-financial sectors)?
			Verifiable	C2	The presented information should be supported with proper evidence that instructs the presentation followed.
			Classification	C3	The presented information should be properly segregated into sub-sections and sub-heads as needed.
			Understandability	C4	Clear and concise characterization and presentation.

Source: AAOIFI (2020); IASB (2018a); Siddiqui et al. (2022b, 2022a)