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THE NIGERIAN STATEMENTS OF ACCOUNTING STANDARDS AND *RIBH* (PROFIT) IN AN ISLAMIC ECONOMY

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Abstract

As a measure of productivity and as an essential prerequisite for investment, profit is universal and fundamental to economic activities. A lot of research conducted over the years on Islamic finance and interest-based economic-system has been concerned basically with the macro-economic variable-interest (ribā). However, the subject, profit (ribh), in relation to both conventional and Islamic accounting standards, has almost totally been neglected. This paper, therefore, investigates the determination of profit in line with the Nigerian Statements of Accounting Standards (SAS), conventional economics and Islamic economic perspectives. Relevant provisions stated in SAS 1 as regards the determination of profit are also applicable in an Islamic economic system. However, Islamic accounting uses both historical cost concept and current valuation inasmuch as the items considered are Sharī'ah-compliant. Risk alone, or risk and sacrifice, cannot make one entitled to profit. The paper makes a clear distinction between interest and profit and states why the former is not allowed in Islamic Banking. The cause of profit should be sales and services. Interest-based income and expenses that are recognised in SAS and conventional economics for profit determination are prohibited in Islamic accounting. Profit sharing ratio is mutually agreed upon between the financiers and the finance users in some Islamic financial products, while the buyer is not informed of the actual cost and the profit margins in other products.

1.0 Introduction

As a measure of productivity and as an essential prerequisite for investment, profit is universal and fundamental to economic activities. It is another way of judging business efficiency. Profit is essential to business enterprises where it plays the roles that water, food and air play to human life. As these are sources of survival and growth to human life, so is the profit to business enterprise. A firm will face the risk of extinction if it fails to realise or earn enough profit that can cover all its costs. Therefore, the benefit that accrues to the person investing his own money, time, expertise, effort, etc., is profit. The desirability of any investment depends on its profitability. What, then, is profit?

The term, profit, has different meanings to different people: non-professionals, economists, accountants, etc. To the non-professionals, profit is the difference between the costs and the revenue. They believe that if they bought a good for ₦200 and sold it for ₦300, they have made a profit of ₦100. They would not take into consideration other expenses such as carriage inwards. To the economist, on the other hand, profit is arrived at after taking into consideration all the costs incurred including the opportunity cost (alternative forgone). To the accountant, profit is realised after charging all variable costs, and a share of fixed cost in the form of depreciation (PAT, 2002: 48).

The income statement, a key source of information on an organization's profitability, reveals the sources of organisation's earnings and their quantity and quality, as well as targets of its expenditures. Income statement structure also indicates the organisation's business orientation. An organisation's financial statement contains essential information for the decision-making process of stakeholders. If the information contained in it is materially mis-stated and wrongly interpreted, the resultant effects could be disastrous. It is for this reason that we have decided to examine the determination of profit in line with the Nigerian Statements of Accounting Standards (SAS), conventional economics and Islamic economic perspectives.

1.1 Origin of SAS and Composition of the Nigerian Accounting Standards Board

Accounting standards are pronouncements issued by accounting bodies to indicate the best way of treating specific items in specific circumstances, particularly when calculating profit (PAT, 2002: ii). They are meant to ensure a high degree of standardisation in published financial statements. Therefore, when an item is treated in accordance with the recommendation of accounting standards, it is assumed that it has been properly treated and this gives both accounting practitioners and other users of accounting statements rest of mind that their treatment of the item is in order.

Accounting standards are statements and pronouncements made by accounting bodies of each country in relation to the published accounts, e.g. the Statement of Accounting Standards (SAS) issued by the Nigerian Accounting Standards Board (NASB), the Statement of Standard Accounting Practice (SSAP) issued by the British Accounting Bodies, the Financial Accounting Standards (FAS) issued by the American Accounting Standards Board (AASB), the International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) etc. The Institute of Chartered Accountants of Nigeria (ICAN), at its Secretariat in Lagos, inaugurated the Nigerian Accounting Standards Board on September 9, 1982. The Board has been giving the Statements of Accounting Standards in Nigeria since that year. The ICAN conceived the idea of having this Board to standardise the preparation of financial statements. In 1992, it became a part of the then Federal Ministry of Trade and Tourism though there was no legal backing for this government parastatal i.e the Board. The situation continued until May 20, and May 28, 2003, when the House of Representatives and the Senate respectively passed the bill that gave the board legal backing. Chief Olusegun Obasanjo, the then President of the Federal Republic of Nigeria signed it into law on July 10, 2003. About 31 accounting standards have been issued as at the time of writing this paper (ICAN Study Pack, 2009: 15). The standards are

numbered systematically at the end of the acronym SAS (Mayo.1989: 1-2).

The Board (*NASB*) consisted of 13 members drawn from practising accountants, public sector, commerce, users of accounts, bankers, stock exchange and the academia. The work of the NASB is similar to those of above-mentioned National Accounting Standard Setting bodies. The composition of membership is as follows:

- Central Bank of Nigeria (CBN)
- Corporate Affairs Commission (CAC)
- Federal Board of Inland Revenue (FBIR)
- Federal Ministry of Commerce and Tourism (FMCT)
- Federal Ministry of Finance (FMF)
- Nigerian Accounting Teachers Association(NATA)
- Nigerian Association Of Chambers Of Commerce, Industry, Mines And Agriculture (NACCIMA)
- Nigerian Deposit Insurance Corporation (NDIC)
- Nigerian Bankers Employers' Association
- The Chartered Institute of Bankers (CIBN)
- Nigerian Stock Exchange(NSE)
- Securities And Exchange Commission(SEC)
- The Institute of Chartered Accountants of Nigeria(ICAN)

Standards issued by *NASB* or regulations and orders issued under such laws do not override the laws of the Federal Republic of Nigeria. However, in Nigeria, the SAS has precedence over foreign standards including International Accounting Standards (IAS) (PAT, 2002: iii).

1.2 Key points considered when calculating profit based on SAS

Income recognition has long been a problem in accounting because there are variations in the way profits are recognised in industry practice. The requirement to provide financial statements for specific periods of reporting creates problems of revenue recognition in accounting. This is because the natural operating circle of some enterprises (e.g. manufacturing companies, trading companies) varies. If income is to be recognised, critical event (a point at which there remain no further risks) must be taken into consideration. Critical event may also be referred to as full performance or it can occur at almost any point in the operating cycle. The following are examples of different points in the operating cycle of businesses that revenue and profit can be recognised: on the acquisition of goods; during the manufacture or production of goods; on delivery/acceptance of goods; when certain conditions have been satisfied after the goods have been delivered; receipt of payment for credit sales; on the expiry of a guarantee or warranty. For the purpose of solving this problem of profit recognition, there are provisions in SAS to give guidelines on the way out. The relevant provisions are stated in SAS 1 and SAS 9

- **Periodicity** is essential as regards the determination of profit because it determines when profit made is shared among the stakeholders. It is difficult to determine with precision the results of a business until its final liquidation. The business community and users of financial statements require that the business be divided into accounting periods (usually one year) and that changes in position be measured over these periods.

In an Islamic economy, this is also very important. As regards the determination of Zakat, periodicity is essential and varies. Therefore, whatever may be the accounting period, weekly, monthly, bi-monthly, yearly etc, the profits made are calculated at maturity. In Islam, the concept of periodicity seems to be very clear in order to fulfill Zakat obligation once a year or when the farm produce is harvested. Islamic calendar based on lunar system or the solar/Gregorian calendar may be used in determining the period of sharing the profit in an Islamic economy while conventional accounting system recognises only the use of solar/ Gregorian calendar.

- **Realisation**: In relation to periodicity, this concept establishes the rule for the periodic recognition of revenue

as soon as it is capable of objective measurement, and the value of assets received or receivable in exchange is reasonably certain. It is, therefore, possible to recognise revenue at a variety of points. It may be when goods are produced, or when goods are delivered, or when the transaction is completed. Industrial norms determine the choice.

- **Matching**: This concept says that for any accounting period, the earned revenue and all the incurred costs that generated that revenue must be matched and reported for the period. If revenue is carried over from a prior period or deferred to a future period, all elements of cost and expenses relating to that revenue are usually carried over or deferred as the case may be.
- **Disclosure of methods**: Different methods of recording financial transactions, calculating profit, measuring depreciation, valuing stocks, et cetera exist.

Therefore, the disclosure of the accounting methods adopted in preparing financial statements usually assists readers in their interpretation.

- **Historical cost concept** holds that cost is the appropriate basis for initial accounting recognition of all assets acquisitions, services rendered or received, creditors' interest, expenses incurred and owners' interests; and it also holds that subsequent to acquisition, cost values are retained throughout the accounting process.

Conventional accounting mainly uses historical cost (or lower) to measure and value assets and liabilities. The limitations of the stable unit of measure are well-known. From an Islamic point of view, at least for the purpose of computation of Zakat, current valuation is obligatory (Clarke et al, 1996).

- **Accrual basis**: Under this basis, revenue and expenses are recognised in the accounting period to which they are earned and incurred, and not when they are received or paid.

- **Depreciation**: This concept provides a guide for uniform and acceptable methods of determining and reporting depreciation on items of property, plant and equipment, generally referred to as fixed assets that are employed in an enterprise.

The items of property, plant and equipment are acquired primarily for use in production of goods or services for an enterprise and are not intended for sale in the ordinary course of business. These items have a limited useful economic life during which they can be profitably used in the operations of the enterprise. Therefore, depreciation is the method of charging the cost of these fixed assets to operations. Usually, the nature of the asset determines the appropriate method to be used for calculating depreciation on a depreciable asset. The straight-line method is usually used for assets that are based on passage of time. With this method, the firm's true profitability is shown unlike when the entire cost of replacing them is charged to the year when they are replaced. As regards this method, the depreciable value of an asset is allocated equally to operations over the relevant years on the basis of the estimated useful economic life of the assets. Other methods are decreasing charge, annuity and sinking fund. When the use of such an item of fixed assets is no longer of economic benefit to the enterprise, the item is usually retired or disposed of. The depreciation charge should be charged entirely to income to arrive at net profit.

- **Construction contracts**: For some firms that have a long production period, revenues are recognised during the production period. An example of this is construction contracts. The profit is recognised based on the percentage of completion method. SAS 5 deals with the timing, measurement and recognition of revenue. Cost incurred before a contract is won must be taken into consideration so as to avoid wrong appraisal of the profitability of the construction contract. Pre-contract costs should be expensed in the period incurred unless there is reasonable assurance that the contract will be won in which case the

costs incurred are deferred and charged to the contract account.

It is noted that the nature, type and size of the contract determines the period of its execution. For contract that takes a short period of time, the profit on it can be recognised at the end or on completion. As regards contracts that take two or more years, there should be a meaningful basis to be used for the determination of the proportion of profit that has been earned as at each accounting date. There will also be the need to determine the value that has to be reported in the financial statements as work-in-progress. There are two ways by which this can be done via **percentage-of-completion method** of revenue recognition and **completed-contract method** of revenue recognition. The former is a method under which revenue is apportioned each accounting period on the basis of the proportion of the contract executed during the period to the total value of the contract. The revenue must be adequately matched with cost in the accounting period. Under completed-contract method of revenue recognition, revenue is only recognised when the contract is completed. The contractor accumulates all the costs incurred on the contract until the contract ends. Costs that are usually incurred at the end of the contract which may not be material are provided for. As profit is recognised prior to the completion of the contract, foreseeable losses on the contract are taken into consideration in the accounts in the period they are identified.

- **Materiality**: The information is not to deceive the users, nor decrease understanding in such a way as to lead to a wrong decision. Financial information should be disclosed part-by-part and materiality of financial affairs should be obvious in the context of the disclosure

Reliability is important to assist people, particularly Muslims, to accomplish their religious responsibilities. If the account is reliable it will assist them to assess their capacity to assist the less privileged or their capacity to pay Zakat. Giving full measure and true disclosure of financial facts without any deceit or fraud is a must in Islam (Q2:282, Q 83:1-3). If this is done, it will facilitate the making of decisions on investment and business matters.

2.0 Economist's theories of profit

To the economist, profit is arrived at after taking into consideration all the costs incurred including the opportunity cost. This is called economic profit. This is better demonstrated thus: if an investor with his money can buy either a sack of beans or and a sack of rice, and if he expects to make a profit of ₦10,000 and ₦8,000 respectively from both, definitely he would choose to invest on beans forgoing the profit from rice because of higher profit. The economic profit of beans is the excess of its income over the earnings from rice, which is ₦2000 (₦10000-8000).

Economists believe that firms maximise the sum of profits over a long period instead of maximizing the short-run profits as the accountant does (Mansfield, E.D. 1974:105). Profit is arrived at in economics after taking care of the capital and labour provided by the owners. For instance, if the owners of a firm who receive profits but no salary should put in effort for a year, say 2009 for which they could receive ₦ 1,000,000 in the year if they worked in another company, the amount would have been regarded as their salaries that they have foregone. Furthermore, if they invest the capital used in their firm somewhere or used it to do another business that could fetch them ₦ 3,000,000 as the returns on investment (ROI) in that year, this figure would be deducted from the reported accounting profit before arriving at the real profit. Suppose that a company's accounting profit for 2009 was ₦ 3,000,000, the economists would not regard the amount as the real profit until the opportunity cost forgone is deducted from the profit made before arriving at the real profit. In this hypothetical case (₦ 3,000,000 - ₦ 3,000,000 - ₦ 1,000,000 = - ₦ 1,000,000) the company has recorded the loss of ₦ 1,000,000 instead of the reported accounting profit of ₦ 3,000,000. On other hand, if the accounting profit of the company is ₦ 5,000,000, the ROI on other investment is ₦ 3,000,000 and the salary that could be received from other establishment is ₦ 1,000,000, the economic profit

would be ₦ 2,000,000. Therefore, if the firm's economic profit is equal or greater than zero, from the economists' view, the firm should not be closed down. It should continue in existence. But if it is less than zero, it should be discontinued. For proper understanding of the nature of profit, we want to discuss some theories of profit with the aim of appreciating what the religion of Islam stands for in relation to profit. Some expenses recognised in the theories are not really incurred, e.g. opportunity cost, implicit wages etc.

2.1 The classical theories of profit

During the classical period, there was a mix-up between interest and profit. The distinction between them was not clear to the classical economists. For instance, Knight (1951; 534) gave an account of the situation as follows:

> Classical writers recognised at least three elements in the income of the capitalist entrepreneur: one payment for the use of the capital (equal to interest), a second element representing payment for the entrepreneur's activities as manager and a third connected in a rather vague way with the varying of the risks of hazards of the enterprise.

However, towards the end of this period, there was a clear distinction between interest and profit. It was then they were able to see the difference between interest and other forms of income such as rent, wages etc.

2. 2 The risk theory

This theory, propounded by Hawley (1893), states that profit is based wholly on risk i.e. the greater the risk, the higher the profit. An entrepreneur is entitled to profit because he assumes the risks of unsold products, unfinished products, theft, etc. If he cannot take risks, he cannot make profits. The assumption of risk is that the risk taker is faced with trouble, anxiety and disutility of various kinds. For facing all these challenges, he is rewarded by a payment over and above the actuarial value of the risk. Profit, therefore, represents partly compensation for the average loss incidental to different classes of risks, which are assumed by the entrepreneur. The other part of the profit represents an inducement to suffer the irksome of being exposed to the risk (Beddy, 1940. 84-85). Although an insurance company can assume some risks, it is not possible for the entrepreneur to cover all the risks through insurance. He has to assume some, otherwise, he is not an entrepreneur. Hawley states:

> The profit of an undertaking or the residue of the product after the claims of land, capital and labour are satisfied, is not the reward of management or coordination, but of risks and responsibilities that the undertaker subjects himself to. In addition, as no one, as a matter of business, subjects himself to risk for what he believes the actuarial value of the risk amounts to… a net income accrues to enterprise, as a whole, equal to difference between the gains derived from undertakings and the actual losses incurred in them. This net income being manifestly an un-predetermined residue must be a profit (Hawley 1907. 101-107).

There is always an element of risk in every venture. The risk may be small or great and always relative to the extent of the business. However, risk is not the only reason for sharing of profit. Profits are also due to the organisational and coordinating ability of the entrepreneurs. Profits also may arise if risks are avoided instead of being taken. The risk covered by the payment of premium to an insurance company can never give rise to profit because the expenses have to be deducted from the total revenue before arriving at the net profit. In the business circle, some monopolists make their profits without taking any risks. Clark (1892) points out that "not only do profits not correspond with risks but often vary inversely as risks." It is well known that greater risk does not necessarily generate greater profits. In an establishment, which is

managed by an entrepreneur who is paid salary, he does not bear any risk. The shareholder bears the risk. The entrepreneur managers are paid their salaries as and when due irrespective of whether a profit is made or loss is incurred. The flaw of this theory is that it mixes up the ownership and control of business. Nowadays, in the big companies, ownership rests with the shareholders while control of business is rested with the salaried managers. In Islam, taking risk is not enough to share profits. An entrepreneur has to put in efforts in line with the Hadith of the Prophet: *Al-kharāju bid-damān*, meaning "profit goes to the one who bears responsibility (or provides lawful services in Islam)" (Al-Hafiz, 1996: 286-287). In the business circle, there are some monopolists that make their profits without taking any risk (Jhingan, 2006.682).

2.3 The uncertainty theory

The uncertainty theory, propounded by Knight, was an attempt to criticise the risk theory. According to him, profit is the reward for bearing non-insurable risks and uncertainties. Risk and uncertainty are two terms that are used interchangeably. Some people do not know the distinction between the two terms and that accounts for substituting one for the other. Risk can be measured and reduced by diversification and insurance. Such insurable or diversified risks are the risk of fire, theft of merchandise, death by accident, etc. Insurance companies can bear such risks. This is not possible as regards uncertainty. It can neither be measured nor insured against. Such unforeseen risks include change in prices, demand, supply, etc. It is not possible to calculate or insure them. (Beddy, 1940: 148).

This theory has its own flaws. It does not take into consideration entrepreneurship and ownership. In modern business corporations, ownership and entrepreneurship are different from each other. Managers (i.e. the salaried employees), take decisions as regards the control and organisation of the entire corporation. The uncertainty is not borne by them. The shareholders are the ones bearing uncertainties of the business. These two entities were taken as one whereas they are not the same. Changes in population and capital in relation to a business firm are unpredictable. It is also not possible to view uncertainty as one of the factors of production like land, labour or capital. This is another flaw of the theory. Monopolists also earn much larger profits than competitive firms without the presence of uncertainty. If uncertainty is attached to profits, then what about mark-up sales, which do not have an element of uncertainty, and yet profits are realised from them (Mark-up sales = Cost + profit). Profit is taken once and for all while interest is received all the time till capital is paid. Profit is not rewarded for bearing uncertainty in a business; it is based on putting effort.

2.4 The innovation theory

According to Schumpter, profit is attributed to innovation. The theory states that an entrepreneur can make profits if he is able to introduce new things. Therefore, it does not need to take any risk inasmuch as he can introduce something entirely new. Innovation involves new method of production, new product, new market, new source of raw materials etc. If any of these is introduced, the cost of production is lower than selling price. The difference accounts for the profit. One of the flaws of this theory propounded by Schumpter is that it does not recognise profit as the reward for risk-taking and uncertainty. Other things, apart from innovation, can assist an entrepreneur to make profits such as organizational ability, market share etc. (Jhingan, 2006: 671).

3.0 Interest and profit: any difference?

Islam and other major religions forbid 'interest'. However, some people such as Abdul Wahab Khallaf (1888-1956), Muhammad Asad (1900-1992), Shaykh Muhammad Shaltut (Grand Imam of Al-Azhar University) (1993-1963), Mohammad Omar Farooq (2006) and Yusuf Ali (1999:128) have been finding ways of legalising it. One of the ways by which they try to win acceptability for 'interest' is that they emphasise the identity between 'profit' and 'interest'. They try to extend the concept of

'interest' to the legitimacy that exists in other economic categories. But Allah forbids taking and paying interest, simple or compound. There are many Hadiths of the Prophet that condemn the taking and paying of interest. What the *Qur'ān* emphasises is profit through trade when Allah says: "Trade is lawful while interest is forbidden". What comes out of a trade is normally profit if it is organised in an Islamic way. Therefore, in Islam, it is legal to take profit. Profit is regarded as payment for a person's effort and risk. It is not only risk but effort that must be taken into consideration before one is entitled to profit (Mannan, 1992: 220-238). According to Siddique (1991:21-34), it is against Islamic injunction to view profit as the only one reason for carrying out economic activities. Equity, justice and fair play must be taken into consideration as well. It is wrong to pursue profit at the expense of the welfare of people. Pursuing profit by exploiting and going beyond the limits laid down by the *Qur'ān* and Hadith is unlawful in Islam (Q2: 275-279).

In the case of interest, creditors do not care how the money is used after it has been lent. Their concern is the capability of the loan user to pay the interest and the principal as and when due. As regards profit, a person who wants to share part of the profit is concerned about the use of the funds. Hence, the investors are normally involved. They give suggestions from time to time because of their interest in the progress of the business. If one receives profit, this is due to one's productive effort. The same thing may not be said of interest.

No risk is often involved in the case of interest. Creditors may collect collateral security from finance users and sell it to recoup their money in case the debtor is unable to pay the principal and the interest. The risk of defaulting, which is also attached to loan with interest, is covered using collateral security. When an investor enters a business arrangement, he does not request for collateral security. He is faced with the risk of losing his money during the course of the business. Armed robbers may attack him and take away all the capital. The capital may be burnt or get lost. All these are some of the risks an investor faces. He cannot claim his money if any of the above-mentioned things should occur. However, if it is a loan with interest, the principal and the accumulated interest must be paid irrespective of whatever happens. The creditors are less concerned. If it means the debtors have to sell all their personal belongings, they must look for money to pay the principal and the interest. Creditors are sure of what to collect and when to collect because interest is certain and fixed. They can plan on the amounts they are to collect. The reverse is the case as regards profit. The investors can never be sure of the actual profit they are to make. They can only estimate their profits, which are unknown in advance. Therefore, they may not be able to plan the way an interest taker plans for a fixed string of income to come in the future. He who is ready to share the profit must be ready to bear the loss arising from the investment. This is not the case with interest.

3.1 Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and Standards

AAOIFI is responsible for developing and issuing Islamic Accounting Standards, Shari'ah Standards on Islamic finance products and practices, Governance Standards on Shari'ah Compliance, Ethics and Auditing for Islamic banking and finance industry. It was established in 1990 and has its corporate office in Kingdom of Bahrain. It was formerly called Financial Accounting Organisation for Islamic Banks. It was in the mid 1990s that the name changed to AAOIFI to accommodate the needs of auditing in addition to accounting requirements. All AAOIFI's standards are in both Arabic and English versions. It is supported by about 200 institutional members from 45 countries including central banks, Islamic financial institutions and other participants from international Islamic banking and finance industry, worldwide. As at the time of writing this paper, about 26 accounting standards, 5 auditing standards, 7 governance standards, 2 ethics standards and 45 Shari'ah standards have been developed and issued by AAOFI (see Appendix 3) (AAOIFI, 2010).

Despite the advantages of the international harmonization of accounting standards such as cost saving, comparability and understandability of financial statements, easy interpretation and credibility of the financial reporting process and profession, time saving and the increasing globalisation of markets and economies, Islamic accounting needs a different system of accounting standards. The emphasis in the accounting world to develop international accounting standards for financial institutions, worldwide, may not be possible. This is because Islamic Accounting Standards reflects an underlying theoretical framework based on Shari'ah Law. Therefore, conventional accounting standards are inappropriate in some areas for Islamic banks and financial institutions due to differing religious beliefs and cultural backgrounds.

3.2 Quranic basis on *ribā (interest) in relation to profit*

As regards the diference between interest and profit in an Islamic economy, the following verses are instructive:

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ۚ ذَٰلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا ۗ وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا ۚ فَمَن جَاءَهُ مَوْعِظَةٌ مِّن رَّبِّهِ فَانتَهَىٰ فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ ۖ وَمَنْ عَادَ فَأُولَٰئِكَ أَصْحَابُ النَّارِ ۖ هُمْ فِيهَا خَالِدُونَ يَمْحَقُ اللَّهُ الرِّبَا وَيُرْبِي الصَّدَقَاتِ ۗ وَاللَّهُ لَا يُحِبُّ كُلَّ كَفَّارٍ أَثِيمٍ إِنَّ الَّذِينَ آمَنُوا وَعَمِلُوا الصَّالِحَاتِ وَأَقَامُوا الصَّلَاةَ وَآتَوُا الزَّكَاةَ لَهُمْ أَجْرُهُمْ عِندَ رَبِّهِمْ وَلَا خَوْفٌ عَلَيْهِمْ وَلَا هُمْ يَحْزَنُونَ يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنتُم مُّؤْمِنِينَ فَإِن لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ ۖ وَإِن تُبْتُمْ فَلَكُمْ رُءُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ

> Those who eat Ribā will not stand (on the Day of Resurrection) except like the standing of a person beaten by Shaytan leading him to insanity. That is, because they say, "Trading is only like Ribā", whereas Allah has permitted trading and forbidden Ribā. So whosoever receives an admonition from his Lord and stops eating Ribā, shall not be punished for the past; his case is for Allah to judge. But whoever returns such as the dwellers of the fire – they will abide therein forever (Q2:275).

> Allah will destroy Ribā and will give increase for sadaqat. And Allah likes not, the disbelievers, sinners (Q2:276). Truly, those who believe, and do deeds of righteousness, and perform the Salah and give Zakah, they will have their reward with their Lord. On them shall be no fear, nor shall they grieve (Q2:277). O you who believe! Have taqwa of Allah and give up what remains from Ribā, if you are really believers (Q2:278). And if you do not do it, then take a notice of war from Allah and His Messenger but if you repent, you shall have your capital sums. Deal not unjustly, and you shall not be dealt with unjustly (Q2:279).

What the *Qur'ān* emphasises is profit through trade when Allah says: "Trade is lawful while interest is forbidden". What comes out of a trade is normally profit or loss if it is organised in an Islamic way. To put it differently, the cause of profit should be sales. Therefore, in Islam, it is legal to take profit. Profit is regarded as payment for a person's effort and risk. It is not only risk, but effort must be taken into consideration before one is entitled to profit. These Medinese verses were the last rules revealed to the Prophet about three months before his death (Rashid Rida, 1960: 123 & Sayyid Qutub,2006: 465). It is important to note that the preceding verse mentions the act of charity. There is a long exhortation to give charity against giving loan on interest. In it, Allah extols the beauty of being generous, and the rewards that await the givers of *Zakah*. No fear shall grieve them and they will not be sad on the Day of Judgment, i.e. they will not enter Hell. If a person is used to giving charity, it is always very easy for the person to give loan without interest. The opposite of charity is mentioned immediately after the exhortation on *Zakah* i.e. usury. Allah confirms the ban on usury to show that those who deal in usury are wicked people. In the above-mentioned verse, Allah gives a description of the usurer as somebody that has been driven to madness.

In fact, as regards usury, Sayyid Qutub (2006: 454) says: "no other issue has been condemned and denounced so strongly in

the *Qur'ān* as has usury; nor has any practice come in for stronger warnings, spelling out fearful doom". Allah refers to the rise of the eaters of usury in this verse. This is capable of referring to their rise from the grave as if a person afflicted by insanity or possessed by a demon would on the Day of Judgment. If the rise is related to this world, it may mean that the eaters of interest will never know peace and security. Therefore, they live in turmoil like insane persons. Some commentators support the first interpretation while some are of the second view i.e. the verse relating to this world. Among those who consider the rise to be related to this world is Sayyid Qutub (2006:457). The implication of likening a person taking interest to a person afflicted with insanity is that just as an insane person cannot see the consequences of his actions, the eaters of usury are oblivious of the consequences of their action. They do not care about what happens next to the society in which they live and the world at large. Individuals or governments may incur debts more than they can pay because they are blind to the consequences. When a person is involved in taking loan with interest, he may not be able to realise the goodness in man. Thus, he becomes a hard-hearted person. In fact, moneylender may create a situation where people are forced to take loan with interest. War is an example of what moneylenders may cause to create rooms for the opponents to seek loan with interest to fight on. If a person wants to pay interest, his mind is not settled again. He acts carelessly and hastily to get money by all means and lower his dignity. In fact, all his acts resemble an insane person. Then, there is a clarification between trade and interest. Allah says He permits trade and forbids interest. In His wisdom, He knows better than any being.

3.2 The prohibition of Interest and the permissibility of profit.

The reasons for prohibition and condemnation of *ribā* in Islam are both on moral as well as on economic grounds. Money is regarded as a means of exchange in Islam. It is not a commodity that can be sold more than its face value. The implication of this is that it is not an end in itself but a means to an end. If a certain amount is put in a wardrobe, it will remain the same irrespective of the number of years it has remained there unless it is put into economic use through its function i.e. as a medium of exchange. In relation to this point, Aristotle wonders "why a mere medium of exchange (money) should increase in passing from hand to hand. It was not "natural" that money should reproduce itself in this way" (Aristotle: 1258).

To the modern economists, economic growth can only be attained in an interest-driven investment. Interest will guide the investment process. If the marginal efficiency of investment (MEI) is higher than interest rate, such a project is viable. Whatever happens, loss or profit, the financier is less concerned. He must get his capital and interest back by all means. The situation is like the case of Shylock and Antonio in Shakespeare's *The Merchant of Venice* where Shylock insists on demanding repayment of the loan given to Antonio. It is added that if the project should fail, Shylock takes flesh in its place. The alternative to *ribā* is profit and loss sharing arrangement which is capable of allocating funds efficiently and effectively among individuals, firms and activities in the society. This is because an investor shares the profit, high or low, during the boom and he bears the loss during depression. This is not the case with interest as it remains fixed both at boom and at depression. It is believed that when the marginal efficiency of investment (MEI) is higher than the interest rate, such an investment is worth the while. It is also assumed that demand and supply determine the rate of interest. Contrary to this belief, monetary authorities determine interest rate after they have taken into consideration variables like unemployment rate, income, public debt, price stability, balance of payments position etc (Essangs and Olayide, 1974: 145). This is to say that it is not demand and supply *per se* that determine it as postulated by loanable funds theory. Even if investors satisfy the rules of marginal efficiency investment (MEI) which is supposed to be greater or equal to interest rate, they are not equally treated. Banks

and other financial institutions give priority to big companies and high net worth individuals even if their projects are harmful to the society because they believe they will be able to pay as and when due. However, the recent global financial crisis has disproved this assertion as big companies and high net worth individuals owe billions of naira, dollars etc without any hope of getting them paid. Those banks that are considered creditworthy are becoming 'credit worthless'. Unfortunately, those who genuinely need finance could not get it. In this way, it is difficult to allocate funds efficiently as the situation will call for a survival of the fittest. The implication is that many investors whose investments are efficient, productive, viable, profitable and highly beneficial to society are deprived of the available funds. On the other hand, profit and loss sharing mechanism provides for small investments, which have all the above-mentioned characteristics.

In the view of Islam, it is injustice (*zulm*) for a person to sit down and be expecting his funds to fetch him returns without sharing the risk. It is also *zulm* for one to make a heavy profit and give peanuts to the finance provider. The Qur'an says: Deal not unjustly (by asking more than your capital sums) and you shall not be dealt with unjustly (by receiving less than your capital sum) (Q2:279).

On moral ground, Islam considers charging of interest prohibited due to the passivity of the financiers. They seem good at risk shifting instead of risk sharing. They are entitled to income from the borrower periodically with ease and without any risk not minding what happens to the business or the finance user, whereas their money if not used by someone cannot increase in value. Money has to be used as a medium of exchange before growth and productivity can be attained (Yusuf, 1989: 265-266). In an Islamic economy, both the finance user and finance provider share the risk. Therefore, both will be concerned as regards the way to make the business successful and profitable. When a person has concern for another person in business, it enhances the spirit of brotherhood. Not only that, it reminds them of their common origin as children of Adam. They, therefore, co-operate to make themselves better and economically viable instead of what happens in the conventional setting where one is made worse and the other is made better economically. In Islam, one does not have to make one worse off in order to make another better off. Both should be made better than they were before coming together in business.

Another point against interest is that people make money by having money without doing any work or taking any risk. It is not only risk that can qualify a financier to a share of profit but also his contribution through his funds to the business because an interest-based loan giver also takes the risk of default. Even taking a risk is not considered to be a genuine reason for charging interest because risk in itself is not an article of merchandise like food, house, car etc on which price is charged. The lenders can ask for collateral security to protect themselves of the risk of default. Sacrifice does not involve material gains as all the rewards are in the heaven (Fazul-Karim, 2001.vol.111: 226-227). Therefore, if a lender is demanding for returns, it is no more sacrifice but business on which he should be prepared to share the profit if it is made and bear the loss if it is incurred. Allah warns against interest but calls for co-operation, charity and interest-free loans to assist one another for improving people's standards of living (Q2:275-279; Q5; 2).

4.0 Calculation of profit in some of Islamic financial products and AAOIFI Standards

Islamic finance has many products that allow both the rich and the poor to be partners in business. Such products are *mudārabah, mushārakah and murābahah.* Mutual trust is considered first in the Islamic finance instead of credit-worthiness i.e. all partners must be honest and trustworthy. Everybody will be rewarded according to his contributions.

4.1 *Mudārabah* (Combination of entrepreneurship and capital) مضاربة

The term, *mudārabah* is referred to in the *Qur'ān* (73:20) when Allah says: 'While others travelling through the land, seeking of Allah's Bounty'. The verse refers to the journey made for the purpose of trade. *Mudārabah* is, therefore, an arrangement in which the capital provider entrusts his capital to the agent manager for the purpose of investment on the condition that profits made will be shared between them based on a previously agreed ratio or percentage. The profit and loss sharing ratio must be agreed upon before the commencement of the business (AAOIFI Shari'ah Standard (13) &Taqi Usmani, 1999: 47-54). If loss is incurred, and the loss is not due to the negligence of the agent, it is borne by the principal. The agent loses his time and effort. However, if the loss is due to his carelessness or negligence, the agent is to bear the loss. The profit sharing ratio is mutually agreed upon between the principal and the finance user based on the market forces prevailing during the time and based on other variables (AAOIFI's Accounting Standards 19 & Sidique 1983: 44-45). Both parties risk one thing or the other. An investor in partnership of *mudārabah* risks his capital while the agent in this financial arrangement risks his time and effort. The implication of this is that an agent is expected to put in effort while using the capital provided by the financier (El-Gousi, A.M. 1982: 214).

4.2 *Mushārakah* (partnership) مشاركة

Mushārakah is an Arabic word which means sharing (Cowan, 1960: 469). In partnership, two or more people come together to form it. The *Qur'ān* is clear about this form of business when it says: "And verily, many partners oppress one another, except those who believe and do righteous good deeds, and they are few" (Q38:24). It also says, "Allah Almighty is with the two partners unless they defraud each other (Al-Hafiz, 1996: Vol.1: 310)." The implication of these quotations from the *Qur'ān* and Hadith is that partners must not cheat each other or one another. They must be honest and fair in their dealings. If they do otherwise, they are deprived of the blessings and favour of Almighty Allah. *Mushārakah* is a partnership that involves contribution of labour and capital from both the finance provider and the would-be customer. The profit is distributed among the partners either according to shares of each partner or as agreed upon. The loss is shared in the ratio of the shares of capital contributed. This is to say that there is no fixed formula for profit-sharing; each case is dealt with on its own merit i.e. the partners will consider all the variables before they agree on the sharing formula (AAOIFI's Accounting Standards 4-8).

4.3 *Murābahah* (cost + mark-up) مرابحة

Murābahah is one of the kinds of sale in Islam. Being a sale, it is allowed in an Islamic economy based on the injunction of the *Qur'ān*, (Q2:275) where it says "...Allah has permitted trading and forbidden *ribā* (interest)". Contract for the sale of goods must possess some qualities before it is considered *Sharī'ah*-compliant. *Murābahah* is a sale of goods at a price that covers both the cost and the profit. In this type, the seller will inform the buyer the actual cost including all the expenses such as custom duties, carriage inwards expenses etc (AAOIFI Shari'ah Standard 17).

The element of profit which is added to the cost must also be made known to the purchaser; i.e. the buyer must be aware of both the total cost and the profit margin. The profit margin may be in lump sum or through an agreed ratio (Taqi Usmani part one; 1979: 103). It is allowed to fix the profit in percentage say, 20%, 10%, 5% etc, of the cost. The seller can add a higher rate of returns if the payment is to be made instalmentally by the buyer. The rate must be fixed in advance as absolute amount. If the buyer is unable to pay any instalment as and when due, it is not allowed for the seller to increase the price (AAOIFI's Accounting Standards 22).

4.4 *Murābahah and Musāwamah* مساومة

Murābahah is when a seller makes the total cost and the profit margin known to a buyer. It means profit is added to the cost while in *Musāwamah*, the buyer is not informed of the actual cost and the profit margins. The buyer is not aware of how much the seller

has incurred in acquiring the goods and how much is the mark-up. The commodity is sold on bargaining basis (Islamic Financial Accounting Standard No. 5). When adding profit, the seller can use any criteria to determine the actual amount to add to the total cost as profit margin. Nevertheless, once decided, it can never be increased if the buyer is unable to pay as and when due (Taqi Usman: part I 1999: 118).

4.5 Calculation of profit and the conventional accounting

A cursory look at the financial statements of any conventional companies in Nigeria shows the determination of profit in line with SAS while Islamic banks follow Islamic Accounting Standards (AAOIFI, 2004). The First Bank of Nigeria Plc's income for the year 2009 shows its gross earnings, the composition of which is detailed in the notes to the accounts. Its costs incurred in connection with these earnings and its profits are stated in the account. The first two items (Interest earnings and Interest expenses) on the profit and loss account are prohibited in Islamic accounting because they involve riba (Q2:275-279). Other items are in line with the dictates of Shariah (appendix 1 &3). In Islamic accounting, the determination of profit is based on sharing of profit and loss (Islamic Financial Accounting Standard No. 6). Al-Baraka Islamic bank's income statements for 2009 show its gross earnings; the composition of which is detailed in the notes to the accounts. As can be seen from the table, the first two items (Interest earnings and Interest expenses) which are present in the First Bank's profit and loss account are missing because Islamic accounting does not consider them as sources of income and heads of expenditure. Real investment in tangible assets using Islamic financial products such as *mudārabah* and *murābahah* are the items found in the profit and loss account. Services, fees and commissions in the statement are also Sharī'ah-compliant (Appendix 2).

Due to prohibition of interest-based income or expense, profit determination is more important in Islamic accounting than conventional accounting. Islamic accounting must be holistic in its reporting. Hence, both financial and non-financial measures regarding the economic, social, environmental and religious events and transactions are reported. Conventional accounting mainly focuses on shareholders and creditors. None of the stakeholders and non-stakeholders must be harmed while making money ethically. There must be equitable allocation and distribution of wealth among members of society especially the stakeholders of the concerned firm. The purpose of Islamic accounting is to provide information which users of the financial statements of Islamic banks will depend on in assessing the Islamic bank's extent of compliance with the dictates of Sharī'ah and determining rights and obligations of all interested parties in accordance with the principles of Sharī'ah (AAOIFI's Statement of Financial Accounting 1&2).

Conventional accounting mainly uses historic cost to measure and value assets and liabilities while Islamic accounting takes into consideration both financial and non-financial measures regarding the specific events and transactions in their report. In Islamic accounting both historical and marketing selling prices are used to value assets. For instance, to calculate the amount of Zakah, assets need to be measured in contemporary terms, not in historical cost. This will enable Islamic firms accommodate contracts and discharge their social obligations. Therefore, the focus is not only on profits as is the case in conventional accounting. Profit maximisation is the target of western economies. In the conventional economics, a person is allowed to use his or her wealth as he or she wishes. This is not the case in an Islamic economy. Individuals do not have absolute rights over their wealth; they are holding it as trustees on behalf of Allah. In other words, "there is a known right for those who ask for it and for those who have need for it" (Q51:19). The implication of this is that they must use it according to the dictates of the Sharī'ah. Therefore, profit maximisation is not the main objective of business transaction in Islam.

5.0 Conclusion

Relevant provisions stated in SAS 1 as regards the determination of profit are also applicable in an Islamic economic system. However, Islamic accounting uses both historical cost concept and current valuation, at least for the purpose of computation of Zakat to measure and value assets and liabilities while conventional accounting uses only historical cost.

While accounting profits are concerned with day-to-day activities of a firm, satisfying tax and other laws, producing records for various groups, etc, economic profit deals with taking decisions and making the best choice among the prospective alternatives. In an Islamic economy, both are recognised inasmuch as the items considered are Sharī'ah-compliant i.e they should not contain forbidden transactions such as *ribā* and alcohol.

The theories discussed and criticised briefly are good representations of many theories of profit not discussed. They are also the most important and well-known ones. They have been advanced to justify and explain profit. It is seen from our discussion so far that none of the theories is free from flaws and criticism. It is found that risk alone or risk and sacrifice cannot make one entitled to profit. This is because the two are neither articles of merchandise nor equipment, machines, vehicles etc that are used for operation. Therefore, any investor who really wants to take risk and also make a sacrifice should become a partner in a lawful business. It is then that he can bear the responsibility of profit and loss. Theorists, economists, accountants, etc. view profit differently. When calculating profits, many expenses deducted by the economists from the total revenue are not genuine expenses. Many are not even incurred. Such expenses include opportunity cost, implicit wages, implicit rents, reward of uncertainty bearings, coordination, rent of ability, rent of innovation, monopoly gains, windfalls, etc. (Jhingan, 2006: 666-668). Many people miss the point that the cause of profit should be sale. However, in Islam, all the three outcomes: profit, loss and break-even are recognised. If profit is made, it is shared by all the partners based on pre-agreed ratio. If loss is incurred, it is also borne by all the partners based on the ratio of the capital contributed. If neither profit is made nor loss incurred i.e. there is a break-even, nobody shares anything. For any economy to grow and develop, there must be regular exchange of goods and services.

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APPENDIX 1

First Bank of Nigeria Plc Annual Report & Accounts 2009 PROFIT AND LOSS ACCOUNT for the year ended March 31, 2009

	Note	The Group 2009 N'million	The Group 2008 N'million	The Bank 2009 N'million	The Bank 2008 N'million
Gross earnings		218,287	155,725	185,189	130,600
Interest earnings	26	156,932	100,703	128,902	79,810
Interest expense	27	(54,908)	(31,569)	(41,843)	(22,283)
Net interest income		102,024	69,134	87,059	57,527
Fees and commissions	28	33,924	28,382	29,114	23,418
Net interest income and commissions		135,948	97,516	116,173	80,945
Income on trading securities	29	17,499	18,407	16,194	16,447
Provision for diminution in value of investments	33	(2,649)	-	-	-
Net income on securities trading		14,850	18,407	16,194	16,447
Other income	30	9,932	8,233	10,979	10,925
Operating expenses	31	(88,397)	(68,004)	(81,533)	(62,260)
Interest on long-term borrowing		(1,744)	(2,218)	(1,744)	(2,218)
Provision for loans and advances	32	(14,298)	(6,423)	(12,469)	(6,152)
Provision for other bad and doubtful accounts	34	(2,492)	395	(1,490)	333
		(106,931)	(76,250)	(97,236)	(70,297)
Profit on ordinary activities before	31.2	53,799	47,906	46,110	38,020

Al-Baraka Islamic Banking Group (Bahrain) Annual Report & Accounts 2009 Consolidated Statement of Income

Year ended 31 December 2009

	Notes	2009 US$'000	2008 US$'000
Income			
Net income from jointly financed contracts and investments	13	812,647	726,240
Gross return to unrestricted investment accounts	14	(709,417)	(652,499)
Group's share as a Mudarib	14	213,421	190,580
Return on unrestricted investment accounts		(495,996)	(461,919)
Group's share of income from joint financing and investment accounts		316,651	264,321
Mudarib share for managing restricted investment account		6,850	13,449
Net income from self financed contracts and investments	13	130,905	137,016
Other fees and commission income	15	123,865	115,933
Other operating income	16	55,242	55,152
TOTAL OPERATING INCOME		633,513	585,871
Staff expenses		179,619	155,196
Depreciation and amortisation	17	20,882	17,618
Other operating expenses	18	108,440	99,526
TOTAL OPERATING EXPENSES		308,941	272,340
NET INCOME FOR THE YEAR BEFORE PROVISIONS AND TAXATION		324,572	313,531
Provisions	19	(104,0	(48,44

exceptional item and taxation					
Exceptional item	5.1	(26,113)	-	-	-
Profit on ordinary activities after exceptional item and before taxation		27,686	47,906	46,110	38,020
Information technology development levy	17.3	(526)	(480)	(461)	(380)
Current taxation	15	(7,690)	(6,705)	(4,529)	(3,126)
Deferred taxation	16	(6,901)	(4,042)	(6,046)	(4,041)
Profit after taxation		12,569	36,679	35,074	30,473
Dealt with as follows:					
Statutory reserve	21	5,368	4,591	5,261	4,571
Reserve for small/medium scale industries	25	1,754	1,523	1,754	1,523
General reserve	23	5,447	30,565	28,059	24,379
		12,569	36,679	35,074	30,473

		68)	3)
NET INCOME BEFORE TAXATION		220,504	265,088
Taxation		(53,118)	(64,075)
NET INCOME FOR THE YEAR		167,386	201,013
Attributable to:			
Equity shareholders of the parent		91,758	113,698
Non-controlling interest		75,628	87,315
		167,386	201,013
Basic and diluted earnings per share - US cents	20	12	15
Source: Al-Baraka Islamic Banking Group (Bahrain) Annual Report & Accounts 2009			

Earning per share (N)– Basic	35	0.51	2.67	1.41	2.23
Source: First Bank of Nigeria Plc Annual Report & Accounts 2009					

First Bank of Nigeria Plc Annual Report & Accounts 2009

PROFIT AND LOSS ACCOUNT

for the year ended March 31, 2009

		The Group		The Bank	
	Note	2009 N'million	2008 N'million	2009 N'million	2008 N'million
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Interest earnings	26	156,932	100,703	128,902	79,810
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Provision for loans and advances	32	(14,298)	(6,423)	(12,469)	(6,152)
Provision for other bad and doubtful accounts	34	(2,492)	395	(1,490)	333

		(106,931)	(76,250)	(97,236)	(70,297)
Profit on ordinary activities before exceptional item and taxation	31.2	53,799	47,906	46,110	38,020
Exceptional item	5.1	(26,113)	-	-	-
Profit on ordinary activities after exceptional item and before taxation		27,686	47,906	46,110	38,020
Information technology development levy	17.3	(526)	(480)	(461)	(380)
Current taxation	15	(7,690)	(6,705)	(4,529)	(3,126)
Deferred taxation	16	(6,901)	(4,042)	(6,046)	(4,041)
Profit after taxation		12,569	36,679	35,074	30,473
Dealt with as follows:					
Statutory reserve	21	5,368	4,591	5,261	4,571
Reserve for small/medium scale industries	25	1,754	1,523	1,754	1,523
General reserve	23	5,447	30,565	28,059	24,379
		12,569	36,679	35,074	30,473
Earning per share (N)– Basic	35	0.51	2.67	1.41	2.23

Accounting standards:	
1. Objective of financial accounting for Islamic banks and financial institution (IFIs).	14. General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies.
2. Concept of financial accounting for IFIs.	15. Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies.
3. General presentation and disclosure in the financial statements of IFIs.	16. Investment Funds.
4. Murabaha and Murabaha to the purchase orderer.	17. Provisions and Reserves in Islamic Insurance Companies.
5. Mudaraba financing.	18. Foreign Currency Transactions and Foreign Operation.
6. Musharaka financing.	19. Investments.
7. Disclosure of bases for profit allocation between owners' equity and investment account holders.	20. Islamic Financial Services Offered by Conventional Financial Institutions.
8. Equity of investment account holders and their equivalent.	21. Contributions in Islamic Insurance Companies.
9. Salam and Parallel Salam.	22. Deferred Payment Sale.
10. Ijarah and Ijarah Muntahia Bittamleek.	23. Disclosure on Transfer of Assets.
11. Zakah.	24. Segment Reporting.

12. Istisna'a and Parallel Istisna'a.	25. Consolidation.
13. Provisions and Reserves.	26. Investment in Associates.
Auditing standards:	**Governance standards:**
1. Objective and principles of auditing.	1. Shari'a Supervisory Board: Appointment, Composition and Report.
2. The Auditor's Report.	2. Shari'a Review.
3. Terms of Audit Engagement.	3. Internal Shari'a Review.
4. Testing for Compliance with Shari'a Rules and Principles by an External Auditor.	4. Audit and Governance Committee for IFIs.
5. The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements.	5. Independence of Shari'a Supervisory Board.
	6. Statement on Governance Principles for IFIs.
	7. Corporate Social Responsibility.

Ethics standards:
1. Code of ethics for accountants and auditors of IFIs.
2. Code of ethics for employees of IFIs.h

Shari'a standards:	
1. Trading in currencies.	24. Syndicated Financing.
2. Debit Card, Charge Card and Credit Card	25. Combination of Contracts.
3. Default in Payment by a Debtor.	26. Islamic Insurance.
4. Settlement of Debt by Set-Off.	27. Indices.
5. Guarantees.	28. Banking Services.
6. Conversion of a Conventional Bank to an Islamic Bank.	29. Ethics and stipulations for Fatwa.
7. Hawala.	30. Monetization (Tawarruq)
8. Murabaha to the Purchase Orderer.	31. Gharar Stipulations in Financial Transactions
9. Ijarah and Ijarah Muntahia Bittamleek.	32. Arbitration
10. Salam and Parallel Salam.	33. Waqf
11. Istisna'a and Parallel Istisna'a.	34. Ijarah on Labour (Individuals)
12. Sharika (Musharaka) and Modern Corporations.	35. Zakah
13. Mudaraba.	36. Impact of Contingent Incidents on Commitments.
14. Documentary Credit.	37. Credit Agreement
15. Jua'la.	38. Online Financial Dealings
16. Commercial Papers.	39. Mortgage and its Contemporary Applications.
17. Investment Sukuk.	40. Distribution of Profit in Mudarabah-based Investments Accounts.

18. Possession (Qabd).	41. Islamic Reinsurance
19. Loan (Qard).	42. Financial Rights and Its Disposal Management
20. Commodities in Organised Markets.	43. Liquidity and Its Instruments
21. Financial Papers (Shares and Bonds).	44. Bankruptcy
22. Concession Contracts.	45. Capital and Investment Protection
23. Agency.	