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# A comparative study of the requirements of Ijarah Muntahia Bittamleek standard according to AAOIFI standards, and the requirements of International Accounting Standard No. 17 - the case of Al Baraka Bank Algeria.

Kedatsa Aisha * (1)
kedatsaaicha@hotmail.fr
University of Blida 2 - Lounisi Ali-, (ALGERIA)

Beddiaf Salah (2)
s.beddiaf@univ-blida2.dz
University of Blida 2 - Lounisi Ali-, (ALGERIA)

Musa Eisa Mohammad Babiker (3)
dr.musa1967@hotmail.com
University of SUDAN, (SUDAN)

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*Abstract*

The Ijarah Muntahia Bittamleek contract is considered as one of the most important forms of financing due to its important advantages it provides and is considered an easy source of financing. This article aims to clarify a comparison between the requirements of Standard No. 8 "Ijarah Muntahia Bittamleek" issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), by comparing the principles of measurement and evidence in the books of both the lessor and the lessee, and the requirements of International Accounting Standard No. 17 "Lease Contracts".

Keyword: Ijarah Muntahia Bittamleek, Accounting and Auditing Organization for Islamic Financial Institutions "AAOIFI", International Accounting Standard.

* *Kedatsa Aisha:*

# 1. INTRODUCTION

In recent years, leasing contracts have spread widely in most countries of the world, especially America and Europe, due to advantages they provide to lessee compared to owning the asset. Among these advantages that it provides an easy source of financing, it also avoids the lessor risk of aging assets due to technological developments, it also characterized by flexibility in the period of use and payment, it is less expensive, and it has advantages related to income tax.

This article aims to conduct a comparative study between the requirements of the Islamic Financial Accounting Standard No. 8 “Ijarah Muntahia Bittamleek issued by (AAOIFI) and IAS 17 "Lease Contracts".

**The essential question is formulated as follows:**

What is the difference of accounting measurement requirements between Islamic Financial Accounting Standard No. 08 Ijarah Muntahia Bittamleek and International Accounting Standard No. 17?

**To answer this question, the following elements were addressed:**

**First**: Introducing the Accounting and Auditing Organization for Islamic Financial Institutions, AAOIFI

**Second**: Islamic Financial Accounting Standard No. 8: Ijarah Muntahia Bittamleek.

**Third**: A comparison between the accounting measurement requirements for Islamic Financial Accounting Standard No. "08" Ijarah Muntahia Bittamleek and the International Accounting Standard No. "17"

**Fourth**: An applied study on Al Baraka Bank of Algeria.

## 2. AAOIFI Accounting and Auditing Organization

The definition and structure of the Organization and the certificates granted by the Organization are covered, in addition to the objectives of the Accounting and Auditing Organization for Islamic Financial Institutions, as follows:

### 2-1-Definition and Structure of the Organization:

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), (Accounting and Auditing Organization for Islamic Financial Institutions, 2009,) formerly called the “Financial Accounting Organization for Islamic Banks and Financial Institutions”, was established under an agreement signed between a number of Islamic financial institutions on 02/26/1990 on Algeria, and it was registered in Bahrain in February 1991 as a global organization with an independent legal entity and not seeking profit. The Organization supported by a large number of legal institutions around the world, more than (200) members in more than 45 countries.

The beginning of this body was a set of studies presented by the Islamic Development Bank at its annual meeting in March 1987, which were documented in five volumes under the title “Accounting Standards for Islamic Banks.” After four years of work, a committee was formed to evaluate after a decision from the supervisory committee for the purpose of considering the articles of association. And the organizational structure of the Organization, and as a result the name of the Organization was changed to become the "Accounting and Auditing Organization for Islamic Financial Institutions", and its organizational structure was modified to replace the Board of Trustees with the supervision committee, the creation of the General Assembly and the Board of

Accounting and Auditing Standards, and the maintenance of the Executive, Sharia and General Secretariat.

The method of financing the Organization, which was made through contributions from the founding members (Islamic Development Bank, Dar Al-Maal Al-Islami Group, Al-Rajhi Banking & Investment Corporation, Dallah Al-Baraka Group and Kuwait Finance House), was also changed to create a "endowment and charity" money in which the member institutions contribute to the Organization. By paying a membership fee, in addition to the proceeds of this endowment, we also find the annual subscription fee, donations, grants, bequests and any other sources of funding.

In 1998, other amendments were made to expand the objectives of the Organization, and the non-founding members were called "associate members".

In addition, a Sharia council was established instead of the Sharia committee, and supportive members were added, consisting of all financial institutions that have an interest in cooperation with Islamic financial institutions and their products and with the Accounting and Auditing Organization for Islamic Financial Institutions.

Based on all above, the structure of the Accounting and Auditing Organization for Islamic Financial Institutions is divided into:

**The General Assembly**: it is the supreme authority in the Organization and consists of the institutions that are members of the Organization. It has the power to approve amendments to the Organization’s statute, accept new members, appoint a board of trustees, and approve annual financial statements.

**The Board of Trustees:** It consists of a number of up to nineteen members, including the Secretary General, part-time members appointed by the General Assembly every five years, and their membership continues until the new board members are appointed.

**Technical Councils:** It councils consist of a maximum of 15 members, in addition to the Secretary General of AAOIFI. Technical councils consist of the following councils:

3-1- The Sharia Council

3-2- The Accounting Board

To ensure the representation of the various sectors in the Islamic financial industry and to achieve scientific richness in the specializations of experts, members of the Accounting Board, the composition of the board shall be according to the following:

**3-3- Governance and Ethics Board**

**3-4- General Secretariat:**

The General Secretariat is the administrative and operational body of the Organization (AAOIFI). The body is chaired by the Secretary General, who is appointed by a decision taken by the Board of Trustees. The General Secretariat is responsible for conducting the daily business of the Organization, preparing standards (in coordination with the technical councils of the Organization) and carrying out all activities related to issuing, publishing and applying standards. The General Secretariat consists of the Secretary General, technical and administrative bodies and others.

It can be said that it is: an international organization that prepares and promulgates financial accounting standards, auditing and control, business ethics and Sharia standards for Islamic financial institutions in particular and the Islamic banking and finance industry. The Organization also organizes a number of professional development programs(especially the Islamic Chartered Accountant Program and the Sharia Supervisor and Auditor Program) in its endeavor to achieve Raise the level of human resources working in this industry and develop controls and governance structures in their institutions.

**2-1-Standards issued by "AAOIFI":**

The Organization issues standards related to accounting, auditing standards, controls standards (governance) and standards of business ethics. Numbers of standards issued by the Organization reached 98 standards, which include:

- 26 accounting standards. In addition to two statements: Statement 01: entitled: Objectives of Financial Accounting for Islamic Banks and Financial Institutions. Statement 02: Financial Accounting Concepts for Islamic Banks and Financial Institutions
- 5 Standards for Auditing
- 07 Standards for (Governance) Controls
- 2 Standards for Business Ethics
- 58 legal criteria.(Available on the website: http://www.aaoifi.com/ar/standards-and-definitions/shari%E2%80%99a-standards/shari%E2%80%99a-standards.html)

**2-3-Certificates granted by the Organization:**

The Accounting and Auditing Organization of Islamic Financial Institutions grants two professional certificates, the first being the Certificate of Islamic Certified Public Accountant (ICPA). It deals with the accounting department necessary to work in financial companies that are subject to Islamic law. As for the second certificate, it is the Certificate of Sharia Supervisor and Auditor (CSAA), and it is concerned with ensuring that the company's work conforms to the principles, standards and Sharia fatwa's, where:

**A- Islamic Certified Public Accountant:**

Islamic legal accountant program includes the following aspects (Available at: http://www.aaoifi.com/en/ certification/ certified-islamic-professional-accountant-cipa/benefits-of-the-program1.html.)

- Development the international Islamic banking and financial systems and the functions of Islamic banks and financial institutions;
- Concepts and principles of international Islamic banking and finance;
- Qualitative characteristics of accounting information in Islamic banks and financial institutions;
- Using of financial accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions in preparing financial reports for the international Islamic banking and financial industry;
- Sharia standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and their applications in Islamic financial products and operations and the legal basis for these standards;
- Control standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and their applications in monitoring and auditing processes.

**B-Certificate of the Sharia Auditor and Controller:**

This program contains everything that strengthens the Sharia control and follow-up processes in Islamic financial institutions, as follows (The Arab Accountant, Accounting and Auditing Organization for Islamic Financial Institutions, available on the website: http://accountan-jo.blogspot.com/2011/02/aaoifi.htm.).

- Sharia standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions in relation to Islamic financial instruments and practices and the basis for the Sharia provisions for these standards;
- Control standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions with regard to Sharia monitoring and follow-up operations;
- Islamic banking and finance supervision, supervisory and external oversight, internal control, application of standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions;

**Operational structures for the Sharia control and follow-up process;**

- Sharia control and follow-up procedures, especially those related to planning, operations, documentation and reporting;
- Using the jurisprudential references to prepare the issues required of the Sharia Board.

**2-4- Objectives of the Accounting and Auditing Organization for Islamic Financial Institutions:**

In accordance within the framework of the provisions of Islamic law and rules, the Organization aims at (Available on the website: http://www.aaoifi.com/en/ certification/ certified-sharia-adviser-and-auditor-csaa/certification-brochure1.html)

I. Developing thinking of accounting, auditing, governance and ethics related to the activities of Islamic financial institutions, with consideration to international standards and practices in line with the provisions of Islamic Sharia.
II. Disseminating thinking of accounting, auditing, governance and ethics related to the activities of Islamic financial institutions and their applications through training, holding seminars, issuing periodicals, preparing research and reports, and other means.
III. Reconciling the accounting policies and procedures followed by Islamic financial institutions, by preparing and issuing accounting standards and their interpretation for these institutions.
IV. Upgrading the quality of audit and governance practices related to Islamic financial institutions, and working to improve the level of standardization of these practices by preparing and issuing standards in both review and governance and their interpretation for these institutions.
V. Upgrading ethical practices related to the activities of Islamic financial institutions, by preparing and issuing charters on ethics and their interpretation for these institutions.

## 3. Islamic Financial Accounting Standard No. 8: Ijarah Muntahia Bittamleek

We will deal with the theoretical aspect of leasing ending with ownership and then the various accounting treatments required by the Islamic Financial Accounting Standard No. 8, specifically Ijarah Muntahia Bittamleek.

**3-1- What is leasing:**

**A- Definition and conditions of leasing:**

1- Ijarah is the sale of the known benefit in exchange for a known consideration (Available on the authority's official website: http://aaoifi.com/ Goals), meaning ownership of a benefit in return for a specified period of time, and its pillars are :( Yaqoub ,Ibjtihah Ismail,2011,p.62)

Formula: and under it there are two things: offer and acceptance.

Contract under which there are two things: a lessor, who is the owner of the property, and a lessee, who is the one who benefits from it.

The thing which is contracted on it is to below it two things: the fee, and the benefit.

So the lease contract is a contract on a permissible benefit for a known period of time known from a specific known or described in the liability or the work of a known mosquito, and this definition is taken from a set of characteristics, which we summarize as follows:

- Leasing is a netting contract, such as selling to own property and leasing to own the benefits.
- The subject matter of the lease contract is the benefits, not the objects from which these benefits are obtained, and they are either known by designation or description.
- The benefit in this contract must be permissible, be known, and be for a specified period, and the compensation for protection must be known.

**B - Conditions: the lease must meet a set of conditions, the most important of which are** (Neima, and Najm, 2010, p.162):

- The benefit obtained through leasing the asset (Al ain) must be legitimate.
- Availability of the conditions that must be met in the contract in general, such as offer, acceptance and two parts of the contract.
- The lessor must be the owner of the usufruct.
- The price is known in price, and the benefit of knowledge that is beneficial to beauty.
- The lease term is known and in proportion to the age of the asset.
- The benefit is not related to the right of others.
- The asset (the ain) that is the subject of the lease be one of the assets that he benefits from while the ain remains (relatively).

So that Lease: is a contractual agreement between two parties whereby the lessee is granted the right to use an asset owned by the lessor, during a specific period of time in exchange for a known fee to be paid according to the agreement.

**3-2 - Stages of Ijarah Muntahia Bittamleek:**

A – **Types of Ijarah Muntahia Bittamleek**: in which the benefit of the asset is owned during the lease term to the lessee with a promise from the owner to own the asset to the lessee at the end of the lease term. Any lease term ends with the lessee’s ownership of the leased assets.

The **Ijarah Muntahia Bittamleek takes the following forms:** (Al-Khalq, 2003, p.39)

(With the condition of separating the lease contract and the contract in which the ownership takes place).

- **Ijarah Muntahia Bittamleek** through a gift: where the asset is owned at the end of the lease term with the gift.

- **Ijarah Muntahia Bittamleek** by sale at a nominal price: At the end of the lease term, the sale is made at a symbolic price that is agreed upon.

- **Ijarah Muntahia Bittamleek** by selling at a real price (market price): the asset is sold after the end of the lease contract at a non-symbolic price, that is, at a real price, which is the price of the asset in the market on the date of the sale contract, paid by the lessee.

- **Ijarah Muntahia Bittamleek** by selling with the rest of the installments: where the lease contract is canceled for the remainder of the period by the transfer of ownership to the lessee, and the sale price is determined based on the price of the remaining installments.

- **Ijarah Muntahia Bittamleek** ending with ownership through gradual sale: the sale is gradually according to the installments paid to the total price, so that the ownership of the asset is transferred in full with the expiration of the lease term, with the conclusion of a sale contract for each part of the asset at a time.

2- **Financial lease or end-to-own is** that lease through which the benefit of an asset is owned in a certain period, with a promise from the owner to own the asset to the lessee until the end of the lease term at the market price at his time or at a price determined on time or at a nominal price or without consideration and is characterized by a relatively long period and a high Rental allowance (Sheta, 2003, p.24).

**B- The stages of leasing ending with ownership:**

As long as this lease ends with the lessee's ownership of the leased asset, in return for the tenant's fulfillment of the lease payments (installments) that represent on the surface the amount of the asset's benefit, with the remaining part being subject to the value of the asset at the end of the lease term) - if any - to the separate sale contract "which we said take pictures and forms.". Thus, it passes through the following stages:

- The customer submits a request to lease an asset (specifying its type and lease term) after purchasing this asset from the bank.

- The bank studies this request, and takes a decision with or without approval.

In case of approval, the customer will be informed of the most important conditions: the first payment of the rent, the period of the lease, the annual or monthly rent to be paid.

- Signing the lease contract between the `` Islamic " bank and the customer according to the agreed terms.

- Signing a contract from the bank to own the asset at the end of the lease term.

- Contract authentication.

- Owning the asset at the end of the lease term to the lessee if he complies with the terms of the contract.

**3-3- Advantages of a Ijarah Muntahia Bittamleek:**

Both the lessor and the lessee achieve advantages through leasing contracts, which include ((AAOIFI), 2009):

**A - Advantages for the lessor:**

- The owner of the investment can own the asset he owns without being forced to give up his ownership, but only the benefit is transferred.

- He can achieve good and guaranteed returns through leasing contracts during the validity period of the contract, providing him with continuous cash flows throughout the contract period.
- Reduces economic fluctuations on the lessor.

**B- Advantages for the lessee:**

- Through the leasing contracts, the lessee can acquire and use the assets he needs without need to pump very easily.
- The lessee is able to benefit from the leased assets in light of changing economic conditions.
- This type of lease enables the lessee to own the asset at the end of the lease term.

**At the end of the lease term:**

- Ownership of the leasing assets is transferred to the lessee according to the gift after the lessee has paid all the lease installments.
- Assets acquired in the lease ending with the gift are recorded at the cash value expected to be achieved at that time, and the value is recorded in favor of the party whose lease installments were paid from its funds, whether they were owners of property rights (according to retained profits) or investment account holders or both.

**Loss of usufruct of lease assets prior to ownership of the gift:**

In cases where the rental assets prior to the ownership of the gift become unfit for use due to the reason not attributable to the lessee, and the lease installments paid by the lessee are more than the fair rent (the same fee), the difference between the two wages is recognized in the books of the lessee's debts from the lessor and is recorded in the income statement.

B- <u>**Ijarah Muntahia Bittamleek** by selling for a symbolic or non-symbolic price specified in the contract</u>: This element contains (Accounting and Auditing Organization for Islamic Financial Institutions, 2009)

<u>**At the end of the lease term**</u>: -The ownership of the leased assets transfers to the lessee after purchasing them.

- The purchased lease assets are recorded at the cash value expected to be achieved at the time of purchase, and if there is a difference between the cash value expected to be achieved and the purchase price named in the promise (symbolic or non-symbolic), then it is recorded in favor of the entity whose funds were purchased.

<u>Loss of utilization of lease assets prior to ownership by selling at a symbolic price</u>: what is mentioned in this element of ownership by gift applies.

C<u>-Lease-to-own by sale before the end of the period at a price equivalent to the remaining lease installments</u>: This element contains (Accounting and Auditing Organization for Islamic Financial Institutions, 2009).

**Purchasing of leasing assets:**

- When the lessee purchases the leasing assets before the end of the lease term at a price equivalent to the remaining lease installments, ownership of the leasing assets is transferred to the lessee.
- The lease assets acquired through selling are proven at a price equivalent to the remaining lease installments in the cash value expected to be achieved at the time of purchase, and if a difference is

found between the cash value expected to be achieved and the purchase price (the remaining installments), then it is recorded in favor of the entity whose funds were purchased.

D- Ijarah ending with ownership through gradual sale: This component contains (Accounting and Auditing Organization for Islamic Financial Institutions, 2009)

The purchased share: The purchased share of the leasing assets is fixed at the purchase price.

At the end of the financial period: The shares purchased are depreciated according to the depreciation policy adopted by the lessee.

**Third**: A comparison between the accounting measurement requirements for Islamic Financial Accounting Standard No. "08" Ijarah Muntahia Bittamleek and the International Accounting Standard No. "17"

In this element, we compare the accounting measurement requirements for Ijarah Muntahia Bittamleek according to each of the Accounting Standard No. 08 issued by the Accounting and Auditing Organization for Islamic Financial Institutions, International Accounting Standard No. 17, noting that the financial accounting system fully complies with Standard No. 17 with regard to the finance lease contract.

**Table 1. Requirements for accounting measurement for lease-to-own contracts**

**For the lessor = (1) for the lessee = (2)**

| | | **Islamic Accounting Standard No.8 issued by (AAOIFI)** | **International Accounting Standard No. 17** |
|---|---|---|---|
| **Assets acquired for the purpose of leasing** | **(1)** | It is measured by its cost of acquisition (historical cost) , includes the purchase price plus any other necessary expenditure to make it suitable for final use. | The assets under a finance lease contract should be recognized in the balance sheet as a liability in an amount equal to the net investment in the lease |
| | **(2)** | **-** | The leased asset must be recognized in the statement of financial position as an asset and liability. It is measured at the present value of the minimum lease payments or the fair market value of the leased asset on the date of the lease inception, whichever is lower. |
| **Depreciation** | **(1)** | The leased assets are depreciated according to the depreciation policy adopted by the lessor, taking into account the following when determining the depreciation value:<br>In the case of Ijarah ending with ownership through a donation, no deduction is required for any remaining value of the assets.<br>In other cases, deducting both the selling price at the end of the contract period, and the price of the shares sold when determining the depreciation value. | |
| | **(2)** | | If there is reasonable assurance that the asset will devolve to the lessee at the end of the lease term, the expected period of use is the useful life of the asset. Otherwise, the asset is depreciated according to the period of the lease term or its useful life, whichever is shorter. |

| | | | |
|---|---|---|---|
| **Lease payments (Revenues / expenses)** | **(1)** | The rental income is distributed in proportion to the financial periods covered by the lease contract, and the rental income is recorded in the income statement (rental income) in the case of leasing ending with ownership through gradual sale. It must be taken into account that the rental income decreases in proportion to the shares owned by the lessee. | Rent payment receivable is treated as payment of the principal amount and financing income to compensate and reward the lessor for his investment and services. The lessor aims to distribute the financing income on a regular and rational basis and this income distribution is based on a pattern that reflects a constant periodic return on the net leased investment outstanding in relation to the finance lease contract. |
| | **(2)** | The lease installments are distributed over the financial periods covered by the lease contract, and leasing expenses account) are fixed in the financial period in which these installments are due. In the case of leasing ending with ownership through gradual sale, it must be taken into account that the expenses of the lease increase in proportion to the shares owned by the lessee. | The lease payments should be divided between the financing cost and the reduction of the outstanding liability, and the financing cost should be apportioned over the periods during the lease term to produce a constant periodic interest rate on the remaining balance of the liability for each period. |
| **Initial direct costs for contracting.** | **(1)** | If it is of relative importance: The direct initial costs of the contract are distributed over the contract period according to the basis followed in the allocation of leasing expenses If it is of relative importance: It shows expenses for the financial period in which the contract was made. | These costs are incurred and either recognized immediately in income or apportioned against that income over the term of the lease. |
| | **(2)** | | - |
| **Leased assets repairs expenses.** | **(1)** | If it is of relative importance: A provision for repairs is created and is charged equally to the income. If they are not of relative importance, the cost of the repairs that ceases to use the leased assets in the financial period in which they occur is proven. In the event that the lessee undertakes repairs to be borne by the lessor, these are proved to be expenses incurred on the financial period in which they occur. | - |
| | **(2)** | In the event that the lease contract stipulates that the tenant shall bear the expenses of the periodic and operational maintenance of the leased assets, these expenses shall be recorded in the financial period in which they occur. | - |
| **At the end of the lease term.** | **(1)** | The ownership of the leased assets shall be transferred and the accounts related to the lease shall be closed if the tenant pays all the installments of the lease in the case of Ijara ending with ownership through a gift. In other cases, all leasing installments must be paid by the lessee, in addition to completing the purchase of the assets at a symbolic or non-symbolic price, or at a price equivalent to the rest of the lease installments, or the | - |
| | **(2)** | | - |

| | | | |
|---|---|---|---|
| | | price of all shares in the event of a gradual sale. | |
| ownership lease assets (the reason is not returned to the lessee) | (1) | If the rent installments that were paid by the lessee were more than the fair rent (similar rent), the difference between the two wages is recognized as an obligation on the lessor and it is recorded in the income statement. | - |
| | (2) | If the rent installments that were paid by the lessee were more than the fair rent (similar rent), the difference between the two wages is recognized in the books of the lessee and the lessor was debited and recorded in the income statement. | - |

**Source:** Researchers relying on: Abdullah, Mayo, Ammar, to bid (2014), leasing ending with ownership between Islamic and international accounting standards, and the financial accounting system, an intervention in the Fifth International Forum on: The role of governance in improving the financial performance of institutions between the application of international accounting standards And Islamic Accounting Standards, at Al-Wadi University, on November 4-5.

Depending on the previous table, in addition to what was stated by both Islamic Accounting Standard No. 08 and International Accounting Standard No. 17, with regard **to measuring Ijarah Muntahia Bittamleek, we can conclude the following:**

**Measuring the value of assets acquired for the purpose of leasing:**

- International Accounting Standard No. 17 stipulates recognition of these assets with the lessor, as he is obligated to recognize the sale of the underlying asset of the contract, and exclude it from among its assets in the list of financial position to replace it with another account, which is (the debtor of the lease contract).
- As for the Organization's standard, it took a different approach in measuring and proving the value of assets acquired for the purpose of leasing, by proving them in the books of the lessor and not in the books of the lessee on the date of the establishment of the lease. These assets are measured at their book value or historical value on the date of acquisition, along with being recorded in the books of the lessor in a separate account in the name of (assets of Ijarah Muntahia Bittamleek account).

Accordingly, it becomes clear that the fundamental difference between the approach followed by both IAS 17 and other standards of the Organization is that the Organization considered that the Ijarah Muntahia Bittamleek contract is merely a rental of the services of the asset, this requires that the contract not be capitalized in the books of the lessee and that what the lessee pays periodically is considered an expense. Carries on the period to which it relates. Whereas IAS 17 followed the approach of capitalizing lease contracts in the books of the lessee, considering that the contract does not involve merely renting the services of the asset, but it is considered as the lessee's acquisition of this asset, and the lessor is considered either a financier of the lessee or a seller of the leased asset to the lessee while financing the purchase (Abdullah, Mayo, Ammar, Le Mazawda , 2014)

**Depreciation:**

International Accounting Standard No. 17 states that if there is no reasonable certainty that the lessee will be the owner of the asset at the end of the lease contract, then the asset must be fully depreciated over the shortest period of this contract and its usefulness period, on a regular basis consistent with the depreciation policy adopted by the lessee in relation to consumable assets owned. While the Organization's standard agreed with the approach took into considering the Ijarah Muntahia Bittamleek contract as a mere lease keeping the ownership of the asset to the lessor during the lease period, and therefore the leased assets are consumed according to the depreciation policy pursued by the lessor, taking into account the following when determining the depreciation value:

- In the case of Ijara ending with ownership by way of donation, not deducting any remaining value of the assets;
- In other cases, both the sale price (symbolic or non-symbolic) must be deducted at the end of the contract period, or the price of the shares sold when determining a value for consumption.

**Lease payments (revenues / expenses)**

International Accounting Standard No. 17 requires that the rent payment receivable at the lessor be treated as a payment of the principal amount and finance income to compensate and reward the lessor for his investment and services. The lessor aims to distribute the financing income on a regular and rational basis. This income distribution is based on a pattern that reflects a constant periodic return on the existing net leased investment.

As for the Organization's criterion, which is based on a philosophy that the leased owner retains the right of ownership at the end of the lease contract, it did not support the idea of splitting the lease payments into its components. When the lessee decides to distribute the leasing installments over the financial periods covered by the lease contract and to be fixed in (leasing expenses account) in the financial period in which these installments are due, and in the case of the lease ending with ownership through gradual sale, it must be consider that the lease expenses increase in proportion to what the tenant owns Of stakes. As for the lessor, the lease revenues are distributed in proportion to the financial periods covered by the lease contract, and the rental income is recorded in (lease income account). In the case of the lease ending with ownership through gradual sale, it must be taken into account that the rental income decreases in proportion to the shares owned by the lessee. (Abdullah, Mayo, Ammar, Le Mazawda, 2014).

Initial direct costs of contracting: According to International Accounting Standard No. 17, the lessor is the one who bears these costs, as they are considered as a cost for obtaining revenue. They are charged as expenses immediately or are distributed over the accounting periods by charging them on the unearned interest income.

While the Organization's standard deals with treating these costs for both the lessor and the lessee assuming that each of them bears a share of them, and these costs are treated as follows:

- If it has materiality: the initial direct costs of contracting are distributed over the contract period according to the basis followed in the distribution of rental expenses.
- If it has no materiality: it shows expenses for the financial period in which the contract was concluded.

**Expenditures for repairing leased assets**: The International Accounting Standard No. 17 and the financial accounting system did not address how to measure and prove accounting for these expenditures.

On the contrary, the Authority’s standard deals with how these expenses are treated for both parties. In the case of the lease contract stipulating that the lessee bears the periodic and operational maintenance expenses of the leased assets, these expenses are recorded in the financial period in which they occur. As for the lessor, these expenses are dealt with as follows:

- **If it has materiality**: if the repairs are significant and vary in value from one year to the next over the period of the contract, then a provision for repairs is created and is charged equally to the income;
- **If it has no materiality**: the cost of repairs on which the use of the leased assets depends in the financial period in which they occur is fixed;
- **In case that the lessee undertakes repairs that the lessor will bear**, they are proved to be expenses incurred on the financial period in which they occurred.

**At the end of the lease term:** International Accounting Standard No. 17 did not mention how the accounting treatment takes place at the end of the lease term.

According to the Authority’s standard, the ownership of the leased assets is transferred and the accounts related to the lease are closed if the lessee pays all the lease installments in the case of **Ijarah Muntahia Bittamleek** through a gift. In other cases, all leasing installments must be paid by the lessee, in addition to completing the purchase of the assets at a symbolic or non-symbolic price, or at a price equivalent to the rest of the lease installments, or the price of all shares in the event of a gradual sale. This confirms what was previously mentioned about the Organization’s philosophy adopted through the standard, as the contract begins as a lease and ownership does not transfer to the lessee until after all obligations are paid.

**Loss of usufruct of the pre-ownership lease assets (for a reason not attributable to the lessee):** This means the termination of the lease contract before its due date because the leased assets are not valid for a reason not attributable to the lessee. International Accounting Standard No. 17 did not address this case.

According to the Organization's standard, the lessor should if the rent installments that were paid by the lessee are more than the fair rent (the same fee), the difference between the amount of the two wages is recognized as an obligation of the lessor. To recognize the difference between the amount of the two wages in the books of the lessee in debt to the lessor.

**Fourth - The Applied Study:**

Al Baraka Bank of Algeria is obligated in front of two sides- the first is the Algerian Central Bank, apply the various laws of Algerian legislation in the field of finance and accounting in general and the laws of the Bank of Algeria in particular, and therefore Al Baraka Bank is obliged to apply the requirements of the bank accounting system (SCFB) derived from international accounting standards- the second party: considering that Al Baraka Bank Algeria is one of the branches of the Al Baraka Banking Group, and the group controls the branch, the branch is obligated to apply the group’s standards, as the latter applies the Islamic Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Therefore, Al Baraka Bank Algeria The group is obligated to apply the Islamic financial accounting standards. Al Baraka Bank Algeria is the first private Islamic bank in Algeria, so it is considered a unique experience, and we will discuss this as follows:

**4-1- A historical back ground of Al Baraka Bank Algeria and its definition:**

Al Baraka Bank is known as (Al Baraka Bank of Algeria, 2006, p.1): Al Baraka Bank of Algeria, it is among the leading financial institutions in Islamic banking with a capital of 500,000,000 Algerian dinars, as it fought and is still involved in many economic sectors in our country, which made it a bank of great importance in addition to its regular tasks and all its operations Financial and investment banking that proceeds in accordance with the principles of Islamic Sharia.

The bank has undergone many decisive events during its course. After its establishment only four years ago, the bank knew stability and financial balance. In 1999, the bank contributed to the establishment of the insurance company called “Al Baraka and Amman” and then in the year 2000, the Algerian Al Baraka Bank classified the increase among the institutions In the private bank, in 2002, a policy of spreading the market exit through the two axes of professional and private loans began, which helped him raise his capital to 2,500,000,000 Algerian dinars in 2006, and in 2009 his capital raised again to 10,000,000,000 Algerian dinars.

In the end, it should be noted that Al Baraka Bank, despite its recent establishment, has achieved many successes in addition to its wide fame, which made it have a good commercial network distributed in many regions in the Algerian country, such as (Algiers, Tizzy Ouzou, Tlemcen, Constantine, Skikda ... etc., and in recent times, 06 other agencies were created, represented in: Biskra, El-wad, Laghouat, El-Borj and Bejaia, in addition to the Shalf Agency, These achievements were not achieved out of a vacuum, but rather through administrative competence and in accordance with dealing with the principles of Islamic law, which is consistent with the culture of the Algerian Muslim community.

**4-2- Functions of Al Baraka Bank of Algeria: The tasks of Al Baraka Bank of Algeria are as follows** (Al Baraka Bank of Algeria, 2006, p.2)

**In the field of banking services:**

Accepting deposits from the masses; opening cash accounts. Payment of the values of payment instruments and their clearances; Receipt of commercial papers (dealing papers or documents); Transfer funds internally and externally; Issuance of bank guarantees (guarantees);

**In the field of social services:**

Providing a good loan (non-interest, Islamic) for productive and consumer purposes in various fields, and helping to enable the loan recipient to start his independent life or improve his income and livelihood.

Establishing a management of funds allocated to the various social purposes under consideration.

**In the field of investment:**

It is a banking activity, whereby Al Baraka Bank gives opportunities to invest its customers' money in certain projects, and the bank realizes these projects in return for certain (non-usurious) profits.

**In the field of finance:**

Al Baraka Bank Algeria, as well as individuals from industrialists and craftsmen, traders, importers, exporters, contractors and others, according to their financial needs, and it also provides them with instructions and advice that require their experience in various such fields.

The bank's financing forms differ for the one who uses them, and they all share the fact that they depend on Islamic methods, including Murabaha, Istisna'a, leasing, and selling Salam.

4-3- Presenting the balance sheet of Al Baraka Bank Algeria for the year 2014 prepared in accordance with international accounting standards within the framework of the financial accounting system.

**Table 2: represents the budget list of Al Baraka Bank of Algeria for the year endedb2014**

**The assets** **Unit: Algerian dinar**

| | Item | Financial years | |
|---|---|---|---|
| | | 2014 | 2013 |
| 1- | The Fund, Bank of Algeria, Center for Postal Instruments. | 74,652,365,251,64 | 84,483,880,749,31 |
| 2- | Other assets held for commercial purposes. | 0000000 | 00000 |
| 3- | Sellable financial assets. | 0000000 | 00000 |
| 4- | Funds granted to financial institutions | 2. 381,608.968, 86 | 879,397,409.01 |
| 5- | Finances granted to customers | 78.246.666.747.51 | 62.640.201.678.62 |
| 6- | Financial assets held to maturity. | 00000 | 00000 |
| 7- | Current taxes – assets. | 1.283.175.420.10 | 1.382.054.615.92 |
| 8- | Deferred Taxes Assets. | 173.307.776.60 | 174.305.107.12 |
| 9- | Other assets. | 1.345.441.017.21 | 3.321.115.310.62 |
| 10- | Settlement accounts. | 29.482.186.50 | 903.185.573.23 |
| 11- | Contribution to companies, institutions and units | 1.670.675.000.00 | 305.622.000.00 |
| 12- | Real estate designated as deposits | 0.00 | 0.00 |
| 13- | Fixed assets | 2.874.901.188.70 | 2.829.494.102.58 |
| 14- | Non fixed assets | 115.104.765.62 | 153.938.372.87 |
| 15- | The acquisition difference | 0.00 | 0.00 |
| | **Total assets** | 162.772.728.322.74 | 157.073.194.919.28 |

**Liabilities**

**Unit: Algerian Dinar:**

| | Item | Financial years | |
|---|---|---|---|
| | | 2014 | 2013 |
| 1- | central bank | 0.00 | 0.00 |
| 2- | Debt trend of financial institutions | 14.257.937.27 | 14.260.623.41 |
| 3- | Debts of customers' tendency to customers | 97.812.918.882.33 | 93.534.941.111.99 |
| 4- | Debt represented by bond | 33.363.754.509.25 | 31.900.035.119.80 |
| 5- | Current taxes - liabilities | 1.348.458.527.23 | 1.642.073.967.97 |
| 6- | Deferred Taxes – Liabilities | 0.00 | 0.00 |
| 7- | Other opponents | 3.329.035.637.05 | 5.027.935.399.97 |
| 8- | Settlement accounts | 3.091.147.561.70 | 1.989.135.624.70 |
| 9- | Provisions on risks and costs | 620.673.989.91 | 599.680.739.53 |
| 10- | Subsidies, equipment and other aids, investments | 0.00 | 0.00 |
| 11- | General Banking Risk Fund | 2.847.006.308.68 | 3.167.859.221.00 |
| 12- | Linked debt | 0.00 | 0.00 |
| 13- | Social capital | 10.000.000.000.00 | 10.000.000.000.00 |
| 14- | Bonus on share capital | 0.00 | 0.00 |
| 15- | Precautions | 5.076.649.977.69 | 4.210.112.180.40 |
| 16- | Valuation difference | 0.00 | 0.00 |
| 17- | The difference in the revaluation | 894.671.917.24 | 894.671.917.24 |
| 18- | Stage Result (- / +) | 67.548.704.05 | 0.00 |
| 19- | Fiscal year result (+) | 4.306.604.700.34 | 4.092.489.013.27 |
| | Total liabilities | 162.772.728.322.74 | 157.073.194.919.28 |

4-4- Presentation of the budget list of Al Baraka Bank Algeria for the year 2014 prepared in accordance with the Islamic accounting standards

**Table 3: represents the budget list of Al Baraka Bank Algeria for the year 2014 according to AAOIFI requirement**

| | Amounts |
|---|---|
| **Assets:** | 00000 |
| Treasury and balances with the Central Bank "Algeria" | 73. 552. 835. 934 |
| Dues from banks and financial institutions that are shorter than or equal to three months | 1. 169. 548. 095 |
| Due from banks and financial institutions that are longer than three months | 0 |
| Collectible sales / accounts receivable | 37. 415. 662. 129 |
| Non-banks (speculative financing) | 0 |
| Participation financing | 72. 638. 755 |
| Istisna'a Finance | 729. 786. 332 |
| The Salam | 9. 573. 412. 028 |
| Investments in securities / commercial bonds | 0 |
| Investments in real estate | 0 |
| Ijarah Assets (Operating Leasing) | 0 |
| Ijarah Muntahia Bittamleek | 32. 146. 031. 078 |
| Investments in subsidiaries and associates | 1. 670. 675. 000 |
| Available for sale investments | 0 |
| Held to maturity investments | 0 |
| Receivable Ijarah / Ijarah receivables | 372. 238. 329 |
| Fixed assets | 2. 874. 901. 189 |
| Intangible assets | 115. 104. 766 |
| Other assets | 2. 314. 613.723 |
| Total assets | 162. 007. 447. 357 |
| **Liabilities (liabilities):** | |
| Customers' current rights and other accounts | 54. 605. 376. 150 |
| Dues of banks and financial institutions | 14. 257. 937 |
| Current portion of medium-term sukuk / current share of medium-term sukuk | 0 |
| Parallel Istisna'a | 0 |
| Parallel Salam | 0 |
| long term loans | 0 |
| Other opponents | 13. 118. 645. 188 |
| Total liabilities 'liabilities' | 67. 738. 279. 275 |
| Unrestricted "unrestricted" investment accounts | 72. 012. 854. 886 |
| Private funds / equity | |
| paid Capital | 10. 000. 000. 000 |
| Share premiums / preferred shares | 0 |
| Precautions | 7. 949. 708. 495 |
| Carry-over / Retained Earnings | 4. 306. 604. 700 |
| Other | 0 |
| Equity attributable to shareholders / private funds allocated to partners | 22. 256. 313. 196 |
| Minority rights "non-controlling interest" | 0 |
| Total private funds | 22. 256. 313. 196 |
| **Total private funds and liabilities** | 162. 007. 447. 357 |

**Source:** Based on information provided by Baraka bank Algeria reports 2013-2014

* Note: After presenting the two budget tables according to the two models, it is noticed that the sum of each of the assets and liabilities differs according to the two models, where the total in the

first form equals 162.772.728.322.74 Algerian dinars, while the total according to the second model equals 162 007 447 357 DZD, i.e. different and this is due to how the component is treated Ijarah Muntahia Bittamleek according to the two models, and this is what we will explain in the next element (a comparative study between the two criteria by projecting the Algerian bank Al Baraka)

4-5- A comparative study between the two criteria by projecting al-Baraka Bank of Algeria:

A study of the comparison between the two criteria, by projecting this to Al Baraka Bank Algeria, in its capacity for preparing financial statements according to the two models, we find:

**Table 4 Represents: Ijarah Muntahia Bittamleek of the Algerian Al Baraka Bank for the year 2014 according to Standard No. 8 according to the requirements of (AAOIFI)**

| Elements | Total funding |
|---|---|
| **Land**: | 0000 |
| Cost | 67. 927. 539 |
| Cumulative depreciation | 000 |
| net book value of the land | 67. 927. 539 |
| **Buildings:** | |
| Cost | 27. 615. 746. 851 |
| Cumulative depreciation | 10. 988. 989. 058 |
| net book value of the buildings | 16. 626. 757. 794 |
| **Equipments:** | |
| Cost | 30. 988. 561. 182 |
| Cumulative depreciation | 18. 429. 657. 127 |
| net book value of the equipment | 12. 558. 904. 055 |
| **Others:** | |
| Cost | 3. 630. 714. 832 |
| Cumulative depreciation | 738. 273. 142 |
| net book value of other items | 2. 892. 441. 690 |
| total net book value of the components of Ijarah Muntahia Bittamleek | 32. 146. 031. 078 |
| Depreciation of the period for the components of Ijarah Muntahia Bittamleek | 30.156.919.327 |

**Source**: Prepared by the researchers, based on the data of the bank's reports 2013-2014

**With regard to measuring Ijarah Muntahia Bittamleek contracts in the books of the lessor considering Al Baraka Bank Algeria as a lessor of the assets, we can draw the following:**

**1- Measuring the value of assets acquired for the purpose of leasing:**

By referring to the Algerian Bank Al Baraka as a lessor and according to its annual report for the year 2014, we find that the latter agreed with both the financial accounting system and International Accounting Standard No. 17 in recognizing these assets with the lessor, as it is obligated to recognize the sale of the underlying asset, and exclude it from among its assets.

According to the financial statements prepared in accordance with the requirements of (AAOIFI) organization of Al Baraka Bank of Algeria, we find that it agreed with the standard of (AAOIFI), which adopted a different approach in measuring and proving the value of the assets acquired for the purpose of leasing, by proving them in the books of the lessor and not in the books of the lessee. In the capacity of Al Baraka Bank as lessor, the elements of **Ijarah Muntahia Bittamleek** are fixed in its books, according to its annual report for the year 2014, which are estimated in total at 32 146 031 078 Algerian dinars (see the assets side of the bank's budget for the year 2014), and the value of the buildings component is estimated at 16 626 757 794 Algerian dinars The value of the equipment is 12 558 904 055 Algerian dinars, other elements are estimated at 2 892 441 690 Algerian dinars, and the lands are estimated at 67 927 539 Algerian dinars.

Accordingly, it becomes clear that the fundamental difference between the approach followed by both IAS 17 and the other (AAOIFI) standard is that the (AAOIFI) considered that the **Ijarah Muntahia Bittamleek** contract is a mere lease of the services of the asset, this requires that the contract not be capitalized in the books of the lessee, while IAS No. 17 Approach to capitalizing lease contracts in the books of the lessee.

**1- Depreciation:**

Both the Financial Accounting System and International Accounting Standard No. 17 have agreed that the asset is fully depreciated over the shortest contract period on a regular basis consistent with the depreciation policy adopted by the lessee. By referring to the Algerian Al Baraka Bank and according to the lists prepared according to the requirements of the(AAOIFI) and looking at the annual report for the year 2014 of the bank, we find that it is in line with what was mentioned in the commission's standard, in line with the approach it took in considering the lease-to-own contract as a mere lease that keeps the ownership of the asset for the lessor during the lease period and therefore the leased assets are depreciated according to the policy Depreciation pursued by the lessor, in this case Al Baraka Bank of Algeria .

With regard to the Algerian Al Baraka Bank as a lessor, the leased assets are depreciated according to the linear depreciation policy and the depreciation values according to the bank's 2014 report. 127 657 429 Algerian dinars, while the cumulative depreciation of other elements was estimated at 142 273 738 Algerian dinars.

2- At the end of the lease term: IAS 17 and the financial accounting system did not mention how the accounting treatment takes place at the end of the lease term.

By referring to the Algerian Baraka Bank, according to the financial statements prepared according to the requirements of(AAOIFI) the ownership of the leased assets is transferred to the lessee and the accounts related to the lease are closed.

(I mean, taking into account that the symbolic sale price of 1000 Algerian dinars will be deducted at the end of the contract period).

## 4. RESULTS AND DISCUSSION

**Our most important findings can be mentioned in the following points:**

1- The fundamental difference between the approach followed by both IAS 17 and the standard issued by AAOIFI is that the (AAOIFI) considered that the **Ijarah Muntahia Bittamleek** contract is merely a lease of the services of the asset, and this requires that the contract not be capitalized in the books of the lessee, while the accounting standard was followed. International No. 17 approach to capitalizing lease contracts in the books of the lessee.

2- The expense component of leased assets repairs did not deal with International Accounting Standard No. 17 how to measure and record accounting for these expenses, on the contrary, the AAOIFI's standard deals with how to deal with these expenses for both parties.

3- International Accounting Standard No. 17 regarding the initial direct costs of contracting recognizes that the lessor is the one who bears these costs, as they are considered as a cost of obtaining revenue that is charged as an expense immediately or distributed over the accounting periods by charging it on the income of unearned interest. While Standard No. 8 issued by the (AAOIFI) deals with handling these costs of both the lessor and the lessee, assuming that each of them bears a share of them.

4- International Accounting Standard No. 17 (Financial Accounting System) states that the asset is fully depreciated over the shortest contract period on a regular basis consistent with the depreciation policy adopted by the lessee. By referring to the Algerian Al Baraka Bank and according to the lists prepared according to the requirements of the authority and looking at the annual report for the year 2014 of the bank, we find that it is agree with what was mentioned in the commission's standard, in line with the approach it took in considering the **Ijarah Muntahia Bittamleek** contract as a mere lease that keeps the ownership of the asset for the lessor during the lease period and therefore the leased assets are depreciated according to the policy Depreciation pursued by the lessor, in this case Al Baraka Bank of Algeria.

5- Both International Accounting Standard No. 17 and the Financial Accounting System did not address how the accounting treatment takes place at the end of the lease term. As for referring to the Algerian Al Baraka Bank and according to its budget prepared according to the requirements of the (AAIOFI Standard No, 8), the ownership of the leased assets is transferred to the lessee and the accounts related to the lease are closed.

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