



Governance and Sustainability on Global Business Economics

Global Conference on Business and Economics Research (GCBER) 2017
14-15 August 2017, Universiti Putra Malaysia, Malaysia

Measuring the Level of Compliance with Financial Accounting Standard No. 8: Evidence from Bahrain

Adel M. Sarea^{*a}, Abdullah M. Muslih^b, Iqbal T.H.^a

^aCollege of Business and Finance, Ahlia University, Manama, Kingdom of Bahrain
^bCollege of Business Administration, Kingdom University, Manama, Kingdom of Bahrain

Abstract

The objective of this paper is to explore the perception of accountants in Islamic Financial Institutions in Bahrain regarding the level of compliance with financial accounting standard (FAS 8) lease and lease to own (Ijarah and Ijarah Muntahia Bittamleek) standard. This standard aims at setting out accounting rules for recognizing, measuring, presenting and disclosing the transactions of Ijarah and Ijarah Muntahia Bittamleek that are carried out by Islamic banks and Islamic financial institutions. A survey method was chosen to measure the level of compliance with Financial Accounting Standard No. 8 (Ijarah and Ijarah Muntahia Bittamleek) and respondents were required to rank their perceptions on the level of compliance of each paragraph based on five-point Likert scale techniques. Questionnaire was distributed to the Islamic banks in Bahrain to obtain their perceptions about the level of compliance with Financial Accounting Standard No.8. The main findings of this study show that the Level of Compliance with Financial Accounting Standard No. 8 is relatively high, which reflect the high level of understanding of this standard and its implications. This paper contributes towards a better understanding of the need of Ijarah and Ijarah Muntahia Bittamleek standard No. 8 in Islamic financial institutions in Bahrain.

Keywords: Islamic Accounting, Accounting Standards, AAOIFI, Islamic Banks, Bahrain.

1. OVERVIEW: RESEARCH BACKGROUND

Bahrain acting as the hub for Islamic finance industry and many Islamic financial organizations to develop the Islamic financial institutions and finance industry in the Kingdom of Bahrain (Sarea, 2012). Islamic banks operate mainly in developing countries in the Middle East, Africa and South-East Asia and are facing difficulties in adopting accounting standards into their practice due to the absence of a legal framework and inconsistency of financial reporting (Ahmed, 2002). For instance, financial institutions in some countries, such as Jordan, the UAE and Qatar, are officially required to comply with the International Accounting Standards (IASs)/ International Financial Reporting Standards (IFRS). Meanwhile, in countries such as Saudi Arabia, the authorities require compliance with both IAS and local accounting standards. In Malaysia, there are national accounting standards, which are based on IAS (Ahmed, 2002). In Bahrain, the authorities require compliance with both AAOIFI and IFRS as requested by central bank of Bahrain (CBB).

The gap currently experienced in term of the divergence of accounting standards implementations poses a great threat to the sustainability of Islamic Financial Institutions (IFIs). For example, some of the Islamic banks treat investment accounts that are based on the mudarbah contract as liabilities and report them on-balance sheet for example Jordan Islamic Bank, Bahrain Islamic Bank and Qatar Islamic Bank. Other banks treat investment accounts as fiduciary investments and, accordingly, report them as off-balance sheet for example Shamil Bank of Bahrain (Ahmed, 2002).

For those reasons, researchers in the area of financial reporting for Islamic financial institutions have conducted a considerable number of studies to investigate the issues of compliance with accounting standards and the need for a unique of accounting standards to be adopted by IFIs. For instance, Karim (1987), Abdel Magid (1981),

*Corresponding author. Tel.: +973 17298968; Fax: +973 17290083
E-mail: asarea@ahlia.edu.bh

Pomeranz (1997), Hameed, Alrazi and Nazli (2006), Che Pa (2006), Shadia Rahman (2007), Sarea, A (2012), and Sarea, A (2013) have examined the understanding, acceptability, and level of compliance with accounting standards for Islamic financial institutions in different countries.

The level of compliance with AAOIFI accounting standards requirements is unknown and needs to be investigated. This is because of the absence of specific accounting standards for Islamic financial institutions and its implementation globally could create some difficulties for users of financial reporting. In the light of the above discussion, review of the relevant studies that propagate the importance of accounting standards for Islamic financial institutions could clarify the research problem (Sarea, 2012).

The AAOIFI issues accounting, auditing, and corporate governance standards, ethics and Shari'ah standards for IFIs. AAOIFI as an independent international organization and supported by institutional members (200 members from 45 countries) including central banks, IFIs, and other participants from the international Islamic banking and finance industry (Sarea, 2013). Currently, AAOIFI has published 26 accounting standards (AAOIFI, 2015).

AAOIFI has been recognized and mandated to develop accounting, auditing, governance and ethics standards that are in line with Shari'ah principles in order to promote comparable, transparent and reliable accounting information for users. Thus, the main objective of AAOIFI is to prepare and develop accounting, auditing, governance and ethical standards relating to the activities of IFIs (Sarea, 2013).

2. RESEARCH PROBLEM AND RESEARCH JUSTIFICATION

2.1 Research problem

Most of the previous studies have focused on the acceptability and understanding of AAOIFI accounting standards and the need for Islamic accounting standards. This study focused on the level of compliance with AAOIFI accounting standards of FAS NO.8.

In order to interpret the compliance issues, this research focuses on the investigation of the level of compliance with the AAOIFI accounting standards. It is accepted that compliance with AAOIFI (FAS 8) Ijarah and Ijarah Muntahia Bittamleek Standard is necessary to ensure that all the matters of IFIs are within a legal framework which is acceptable for the Muslim community and in line with Shari'ah principles. The level of compliance issues get top priority in some of the previous studies, such as Hameed, Alrazi and Nazli (2006), Che Pa (2006) and Zaini (2007), Farah Nadzri (2009), Mechelli (2009), Sarea (2012) and Sarea (2013).

The previous studies investigated both the degree of harmonization and compliance in applying AAOIFI accounting standards. The results of the research indicated a high level of compliance with AAOIFI accounting standards by Islamic banks in Bahrain (Sarea, 2012). The high degree of heterogeneity could impair the comparability of financial statements across entities (Sarea, 2012). The high degree of non-compliance could lead to the risk of misleading users of financial statements. In short, the evolving literature offers different interpretations as follows:

- High level of compliance with accounting standards: Hameed, et, al (2006) stated that the complying level of Bank Islam Malaysia Berhad (BIMB) is 15 percent, while Bahrain Islamic Bank (BIB) 61 percent. Thus, it is indicated that the (BIB) in Bahrain has higher level of compliance with the AAOIFI accounting standards compared to the BIMB in Malaysia and Sarea (2012) indicated high level of compliance with AAOIFI accounting standards in Islamic banks of Bahrain.
- Moderate level of compliance with accounting standards: Che Pa (2006) and Zaini (2007) argue that the level of acceptability of AAOIFI have only a moderate level of compliance among the managers in Islamic banks in Malaysia.
- Low level of compliance with accounting standards: Nadzri (2009) concluded that in regard to Zakah, the extents of disclosure by the IFIs are much lower than the AAOIFI requirements.

2.2 Need for the study

The growth of Islamic banking in particular has been remarkable, with total assets in this segment jumping from US\$1.9 billion in 2000 to US\$25.4 billion by August 2012, an increase of over 12 times. The market share of Islamic banks correspondingly increased from 1.8% of total banking assets in 2000 to 13.3% in August 2012. Islamic banks provide a variety of products, including Murabaha, Ijara, Mudaraba, Musharaka, Al Salam and Istitsna'a, restricted and unrestricted investment accounts, syndications and other structures used in conventional finance, which have been appropriately modified to comply with Shari'a principles (CBB Website, 2017).

Lease and lease to own (Ijarah and Ijarah Muntahia Bittamleek) transactions are considered as one of the financial instruments used by Islamic banks. According to a field survey conducted by AAOIFI (2010) in which 20 Islamic banks participated, the proportion of Ijarah to total financing and investment permutations used by Islamic banks differed greatly among these banks, with a percentage ranging from 2% to 60%, the average being 12%. Similarly, the proportion of revenue generated from Ijarah transactions relative to all revenues of Islamic banks ranges from 3% to 81% with an average of 17% (AAOIFI, 2014). On the other hand, the survey revealed that Islamic banks differed in treating the measurement and disclosure of leased assets, and in accounting for the Islamic bank's share of initial direct costs and repairs of leased assets. They also differed as to the recognition of Ijarah revenue (nearly half the participating Islamic banks recognized Ijarah revenue when the rental instalment became due, the other half recognized rental revenue at various other times). Furthermore, the survey showed that Islamic banks also differed in the disclosure of accounting policies concerning Ijarah and Ijarah Muntahia Bittamleek (AAOIFI, 2014).

Such differences in accounting treatments and disclosure tend to have various effects. It would be difficult to compare profits realized by an Islamic bank with those realized by another Islamic bank. This would reduce the usefulness of information to users of the financial statements of Islamic banks. Also, such differences might affect the allocation of the results of joint investment transactions in terms of profit or loss between holders of unrestricted investment accounts and equity holders on one hand and the allocation of the results of transactions in terms of profit or loss among holders of (unrestricted or restricted) investment accounts on the other hand (AAOIFI, 2014).

However, standardisation of the accounting treatment of profit recognition of the Ijarah and Ijarah Muntahia Bittamleek transactions and the disclosure thereof, confirms with the provisions of the statement of objectives such as "determination of the rights and obligations of all interested parties, including those rights resulting from incomplete transactions and other events in accordance with the principles of Islamic Shari'a and its concepts of fairness, charity and compliance with Islamic business ethics, and to provide useful information to users of financial reports of Islamic banks to enable them to make legitimate decisions in their dealing with Islamic banks" (AAOIFI, 2014).

3. RESEARCH METHODOLOGY

3.1 Scope of the standard

This standard addresses the accounting rules relating to Ijarah and Ijarah Muntahia Bittamleek in which the Islamic bank is a lessor or a lessee, including the acquisition of assets for Ijarah, Ijarah expenses, revenues, gains and losses (AAOIFI, 2014). This standard does not address the following (AAOIFI, 2014):

- a) Ijarah agreements for exploration or use of natural resources, such as oil, gas, timber, metals, and the like.
- b) Ijarah transactions concerning licensing agreements of certain items such as motion pictures, video recordings, manuscripts, patents, and copyrights.
- c) Labour contracts and hiring of professional services (para 2)

3.2 Research instrument

The data required for the study are collected using a questionnaire and the 88 paragraph of the standard were reflecting directly into the questionnaire. However, the prior studies were considered to be beneficial to exploring and understanding the Ijarah and Ijarah Muntahia Bittamleek standard as well as to highlight the differences of accounting implications which chosen for the accounting treatment of Ijarah and Ijarah Muntahia Bittamleek in the financial reporting according to the FAS 8 standard.

3.3 Descriptive statistics

Descriptive statistics have been conducted to analyze the questionnaire, as well as to explain the research objective and research questions. Thus, to support the analysis for the research objective and research question, the questionnaire is designed to obtain the accountants' perceptions about the level of compliance with AAOIFI (FAS 8) Ijarah and Ijarah Muntahia Bittamleek. However, most of the accountants believed that adopting or complying with the AAOIFI accounting standards can attract more investments, make financial statements more practical as well as relevant and enhances comparability (Sarea, 2012).

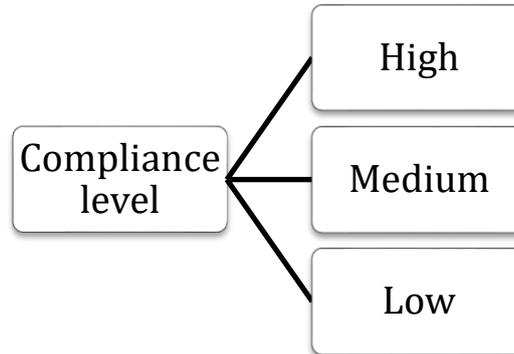
3.4 Sampling size and data collection

The sampling size of the study consists of a number of accountants (those involve directly in preparing the financial reporting) in Islamic banking in Bahrain. However, the total of Islamic banks are 18 banks according to the Central Bank of Bahrain (CBB website, 2017). Approximately, the total of accountants are working in Islamic Banking ($8 \times 14 = 112$) four banks were excluded due to lack of data. A total of 110 questionnaires were distributed to the accountants of the Islamic banking in Bahrain. Only 79 copies were returned to be examined, approximately

71%, which is sufficient for statistical reliability. However, by using the Sample Size Calculator, If Confidence Level at 95%, Confidence Interval at 5% and Population Size, 112. Thus, we need to measure 87 or more as samples.

A survey was developed to collect data and contains the requirements of AAOIFI FAS 8 as well as in line with previous studies. With regard to the measurement of level of compliance different interpretations of the level of compliance are discussed in the literature review. According to Hewaidy and Al Mutawaa (2010) the level of compliance is distinguished into four levels. If the disclosure level of compliance equals or above 80 percent then it is considered as a high level of compliance. The intermediate level of compliance is between 60 and 79 percent, low level of compliance when it is between 40 and 59 percent. Below 40 percent represents huge gap between the requirements of disclosure and the IFRS requirements. However, this study adopted the three levels of compliance as shown in the following figure due to no items below 40 percent.

The Compliance level is shown in the following figure.



Source: Author (s)

Fig. 1: Compliance level

4. RESEARCH ANALYSIS AND FINDINGS

The purpose of this paper is to obtain the perceptions of accountants in Islamic financial Institutions in Bahrain regarding the level of compliance with AAOIFI (FAS 8) Ijarah and Ijarah Muntahia Bittamleek Standard eight. This research used the AAOIFI FAS 8 requirements, which are published by Accounting and Auditing for Islamic financial institutions (AAOIFI). The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) prepares and issues accounting, auditing, and corporate governance standards, as well as ethics and Shari'ah standards, for Islamic financial institutions.

Descriptive analysis conducted to measure the level of compliance with AAOFI accounting standards for FAS No.8 as per of the requirements. The average number of compliance level of the mean score as shown below.

Table 1: Level of Compliance

Compliance status	No. of requirement	Mean
High Level Compliance	14	4.08
Moderate level Compliance	12	3.27
Low Compliance	6	2.84

Based on the previous studies, the researchers divide the compliance level into three levels as discussed above:

- high level compliance: Above 80%
- Moderate level compliance: between 61% and 80%
- Low level compliance: 60% or below

The summary of findings is provided in the below Tables:

Table 2: Classification of Ijarah

Statement of the Standard – FAS 8	Mean
Classification of Ijarah	
Ijarah Muntahia Bittamleek (Ijarah wa Iqtina) It includes:	3.11
Ijarah Muntahia Bittamleek through gift (transfer of legal title for no consideration). (para 4)	3.11

Ijarah Muntahia Bittamleek through transfer of legal title (sale) at the end of a lease for a token consideration or other amount as specified in the lease. (para 4)	3.09
Ijarah Muntahia Bittamleek through transfer of legal title (sale) prior to the end of the lease term for a price that is equivalent to the remaining Ijarah instalments. (para 4)	3.05
Ijarah Muntahia Bittamleek through gradual transfer of legal title (sale) of the leased asset. (para 4)	3.25

A survey method was chosen to measure the level of compliance with the AAOIFI accounting standards. Respondents were required to rank their perceptions on the level of compliance with FAS 8 requirements for each paragraph based on five-point Likert scale techniques. The above table shows the list of FAS 8 standard as per of the AAOIFI requirements and indicates the perceptions of respondents regarding the level of compliance with AAOIFI (FAS 8) Ijarah and Ijarah Muntahia Bittamleek. Based on descriptive analysis have been conducted to evaluate the accountants' perceptions about the level of compliance with AAOIFI accounting standards (FAS 8). The findings revealed that 14 statements of the requirements reflect high level of compliance meanwhile 12 statements of the requirements reflect moderate level of compliance as well as 6 statements of the requirements reflect low level of compliance with AAOIFI (FAS 8) Ijarah and Ijarah Muntahia Bittamleek.

In short, the total mean and general mean relatively high level of compliance and showing that most of the perceptions of the respondents are relatively complying with the AAOIFI (FAS 8) Ijarah and Ijarah Muntahia Bittamleek standard.

Regarding Classification of Ijarah (para 4) the level of compliance at moderate level which reflect that Islamic banks relativity differed in treating the measurement and disclosure of leased assets, and in accounting for the Islamic bank's share of initial direct costs and repairs of leased assets.

Table 3: Operating Ijarah, Ijarah Revenue

Statement of the Standard – FAS 8	Mean
Operating Ijarah	
Assets acquired for Ijarah shall be recognized upon acquisition at historical cost. Historical cost of assets acquired for Ijarah includes net purchasing price plus all expenditures necessary to bring the asset to its intended use, such as custom duties, taxes, freight, insurance, installation, testing, etc. (para 5)	4.15
If a permanent material reduction in the estimated residual value of the leased asset is anticipated, such reduction shall be estimated and recognized as a loss to be charged to the financial period in which it occurs. (para 6)	4.09
Leased assets shall be depreciated on a basis consistent with the lessor's normal depreciation policy for similar assets. (para 7)	4.01
Leased assets shall be presented in the lessor's statement of financial position under Investments in Ijarah Assets. (para 8)	4.00
Ijarah Revenue	
Ijarah revenue shall be allocated proportionately to the financial periods in the lease term. (para 9)	3.65
Ijarah instalments revenue shall be presented in the lessor's income statement as Ijarah revenue. (para 10)	3.53
Ijarah instalments revenue shall be recognized in the accounting period in which these instalments are due. (para 10)	3.85

For Operating Ijarah (para 6, 7 and 8) the level of compliance at high level which reflect that Islamic banks in this sample not differed in treating Operating Ijarah and this reflect the understanding of these paragraphs in most of the Islamic Banks in Bahrain.

For Ijarah Revenue (para 9 and 10) the level of compliance at moderate level which reflect that Islamic banks in Bahrain comply with the AAOIFI FAS 8 standard as requested by the AAOIFI requirements as well as they allocated Ijarah revenue proportionately to the financial periods in the lease term and recognized Ijarah revenue in the accounting period in which these instalments are due.

Table 4: Repairs of leased assets, Ijarah expense, Contracting and beginning of Ijarah and At the end of a financial period

Statement of the Standard – FAS 8	Mean
Repairs of leased assets	
Repairs that are necessary for securing the service of the leased assets shall, if immaterial, be recognized in the financial periods in which they occur. (para 12)	4.06
If the repairs are material and differ in amount from year to year over the lease term, then a provision for repairs shall be established by regular charges against income. (para 13)	4.05
At the end of a financial period	
Amortisation of initial direct cost, if material, shall be recognized as an expense of the period. (para 15)	2.65
If a provision for repairs has been established, the cost of repairs for the period shall be charged against the provision. (para 16)	3.00
Leased assets shall be depreciated according to the lessor's normal depreciation policy for similar assets. (para 17)	2.51
Ijarah instalments receivable shall be measured at their cash equivalent value. (para 18)	2.95
Ijarah expense	
Ijarah instalments shall be allocated over the financial periods of the lease term and shall be recognized in the financial period in which these instalments are due. (para 19)	3.15
Initial direct costs incurred by the lessee for arranging for the lease agreement shall, if material, be allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If these costs are immaterial they shall be charged directly as an expense to the financial period in which the lease agreement is made. (para 20)	3.06
Contracting and beginning of Ijarah	
Leased assets shall be presented in the lessor's statement of financial position under Ijarah Muntahia Bittamleek Assets and shall be measured at their book value. (para 22)	4.35
At the end of a financial period	
Leased assets shall be depreciated according to the lessor's normal depreciation policy for similar assets. (para 27)	4.04

The results of the survey show that, For repairs of leased assets and according to (para 12 &13) the level of compliance at high level which reflect that Islamic banking in Bahrain comply with the AAOIFI FAS 8 standard requirements. With regard to para (15, 16, 17 and 18) at the end of a financial period, the precpation were relativity low which that Islamic banks differed in treating amortisation of initial direct, the provision and depreciation policy among the surved Islamic banks in Bahrain. However, For Ijarah expense, (para 19 and 20) the level of compliance at moderate level which means Ijarah instalments shall be allocated over the financial periods of the lease term and shall be recognized in the financial period in which these instalments are due as well as Initial direct costs incurred shall be charged directly as an expense to the financial period in which the lease agreement is made. With regard to the Contracting and beginning of Ijarah (para 22) the level of compliance quite high which means all Leased assets shall be presented in the lessor's statement of financial position under Ijarah Muntahia Bittamleek Assets and shall be measured at their book value. Therefore, at the end of a financial period, Leased assets shall be depreciated according to the lessor's normal depreciation policy for similar assets (para 27).

Table 5: Recognition of the sold portion of the leased asset, Periodic and operating maintenance of leased assets and Purchase of leased assets

Statement of the Standard – FAS 8	Mean
Recognition of the sold portion of the leased asset	
The book value of the sold portion of the asset shall be removed from the leased assets account and the lessor shall recognize in its income statement any gain or loss resulting from the difference between the selling price and the net book value. (para 49)	3.40
Periodic and operating maintenance of leased assets	
Where periodic and operating maintenance of the leased asset is required to be paid by the lessee under the terms of the lease, the resulting costs shall be recognized as an expense in the financial period in which they occur. (para 55)	3.05
Purchase of leased assets	
Legal title shall pass to the lessee when the latter buys the leased asset at a price that is equivalent to the remaining Ijarah instalments. (para 68)	2.80

Assets bought prior to the end of the lease term shall be measured at their cash equivalent value at the time of purchase. (para 69)	2.97
--	------

For the Recognition of the sold portion of the leased asset (para 49), the perceptions of accountants were relatively at the moderate level which means any gain or loss resulting from the difference between the selling price and the net book value shall recognize in its income statement.

For periodic and operating maintenance of the leased asset is required to be paid by the lessee under the terms of the lease, the resulting costs shall be recognized as an expense in the financial period in which they occur (para 55) relatively moderate level which means Islamic banks not totally differed in treating operating maintenance of leased.

For the Legal title shall pass to the lessee when the latter buys the leased asset at a price that is equivalent to the remaining Ijarah instalments (para 68) and the assets bought prior to the end of the lease term shall be measured at their cash equivalent value at the time of purchase (para 69) relatively low level of compliance which means Islamic banks differed in treating of Legal title and the assets bought prior to the end of the lease.

Table 6: Disclosure requirements

Statement of the Standard – FAS 8	Mean
Disclosure requirements	
The Islamic bank should disclose in the notes accompanying the financial statements the accounting policies adopted for the accounting treatments of Ijarah and Ijarah Muntahia Bittamleek transactions as a lessor and/or a lessee. (para 81)	4.01
The Islamic bank should disclose in the notes accompanying the financial statements the amount of leased assets by each major class of assets net of accumulated depreciation as of the date of the statement of financial position. (para 82)	4.00
The Islamic bank should disclose in the notes accompanying the financial statements, in summary form, the amount of future Ijarah instalments receivable. (para 83)	4.00
The Islamic bank should disclose in the notes accompanying the financial statements, in summary form, the amount of future Ijarah instalments payable. (para 84)	4.11
The Islamic bank should disclose in the notes accompanying the financial statements the amount of leased assets by each major class of assets net of accumulated depreciation, if any, as of the date of the statement of financial position. (para 85)	4.07
The Islamic bank should disclose in the notes accompanying the financial statements any commitments relating to Ijarah Muntahia Bittamleek agreements that were initiated prior to the date of the statement of financial position of the current period. (para 86)	4.3

The Disclosure requirements for FAS No.8 about Ijarah Muntahia Bittamleek, which indicates that leased assets to be recorded in an Ijarah Muntahia Bittamleek assets account and measured at book value. Additionally, the Islamic bank should disclose in the notes accompanying the financial statements the accounting policies adopted for the accounting treatments of Ijarah and Ijarah Muntahia Bittamleek transactions as a lessor and/or a lessee (para 81). The same table indicates that Ijarah and Ijarah Muntahia Bittamleek are accepted to be implemented according to the perceptions of accountants, and Ijarah and Ijarah Muntahia Bittamleek are transactions in line with Shari'ah principles. With regard to (para 82, 83, 84, 85 and 86), the level of compliance with these requirements are relatively high which is reflecting the understanding the standard requirements for financial disclosure. Overall, the Islamic bank should disclose in the notes accompanying the financial statements any commitments relating to Ijarah and Ijarah Muntahia Bittamleek as per of the FAS 8 requirements.

5. Conclusion and Area for Future Research

AAOIFI FAS No.8 consists of 88 paragraphs that describe measurements, recognition, and disclosure requirements, as well as setting out accounting rules for the treatments related to the determination of Ijarah and Ijarah Muntahia Bittamleek (AAOIFI, 2014).

Measuring the compliance level of financial accounting standard (FAS 8) Ijarah and Ijarah Muntahia Bittamleek in Islamic financial institutions in order to highlight the need of theses accounting standards in Islamic financial institutions industry in Bahrain. However, (FAS 8) Ijarah and Ijarah Muntahia Bittamleek in Islamic financial institutions is becoming increasingly important products to being investigated among Islamic Financial Institutions worldwide. Therefore, questionnaires were distributed to Islamic financial institutions in Bahrain. The main results of this study show that the Level of Compliance with AAOIFI Financial Accounting Standard No. 8

relatively high in the Islamic financial institutions in Bahrain and this is due to their consistency with the regulation imposed by the regulatory bodies in Bahrain, such as Central Bank of Bahrain (CBB) requirements. This research contributes towards the better understanding of the need for Ijarah and Ijarah Muntahia Bittamleek in Islamic financial institutions in Bahrain.

Future research should combine quantitative and qualitative methods and this can enrich the outcomes of Ijarah and Ijarah Muntahia Bittamleek Standard No. 8 in Islamic financial institutions in Bahrain. Interviews and focus groups could provide additional sources of rich data. In addition, an investigation of the perceptions of the regulatory bodies in Bahrain, such as Central Bank of Bahrain (CBB) could provide further insights regarding measuring the compliance level Ijarah and Ijarah Muntahia Bittamleek Standard No. 8 in Islamic financial institutions in Bahrain.

REFERENCES

- AAOIFI (2016). Financial Accounting Standards, Accounting and Auditing Organization for Islamic Financial Institutions, Manama, Bahrain.
- AAOIFI (2014). Financial Accounting Standards, Accounting and Auditing Organization for Islamic Financial Institutions, Manama, Bahrain.
- Abdel-Magid, M. F. (1981). The theory of Islamic banking: Accounting implications. *The International Journal of Accounting*, 17(1), 79-102.
- Ahmed, E. (2002). Accounting issues for Islamic banks. In Archer, S. and Rifaat Ahmed Abdel Karim (ed.). *Islamic finance Innovation and Growth*. Euro money books and AAOIFI: Nestor House. London.
- Che Pa, A. (2006). An exploratory study on the understanding and accounting for Islamic bonds: perspective of Malaysian bank managers. (Master thesis). International Islamic University Malaysia.
- Hameed, S. Wirman, A. Alrazi, B. Nazli, M. and Pramono, N. (2006). Alternative Disclosure and Performance Measures for Islamic Banks. International Islamic University Malaysia. Available in <http://www.iiu.edu.my/iaw/Students> (Accessed: 11 April 2011).
- Karim, R. A., & Tomkins, C. (1987). The Shari'ah and its implications for Islamic financial analysis: An opportunity to study interactions among society, organization, and accounting. *The American Journal of Islamic Social Sciences*. 4(1).101- 115.
- Mechell, Alessandro. (2009). Accounting harmonization and compliance in applying IASB standards: An empirical survey about the first time adoption of IAS 7 by Italian listed groups. *Accounting in Europe*. 6(2), 231 – 270.
- Nadzri, F. (2006). Roles and impacts of accounting and auditing organization for Islamic financial institutions (AAOIFI) in dealing with the accounting and disclosure of Zakah and interest (Riba). Thesis, Master of Business, AUT University.
- Pomeranz, F. (1997). The accounting and auditing organization for Islamic financial institutions: An important regulatory debut. *Journal of International Accounting, Auditing & Taxation*. 6(1), 123-130.
- Hewaiddy, A. and Al Mutawaa, A. (2010), "Disclosure level and compliance with IFRSs: an empirical investigation Of Kuwaiti companies", *International Business & Economics Research Journal*, Vol. 5 No. 9, pp. 33-50.
- Sarea, A (2013), The Need of Accounting Standards for Islamic Financial Institutions, *International Management Review*, the American Scholars Press. Vol. 9 No. 2 2013. pp 50-59
- Sarea, A (2013), The move towards global Accounting Standards for Islamic Financial Institutions: Evidence from AAOIFI. *Journal of Islamic Economics, Banking and Finance*. Vol. 9 No. 4, October-December, 2013. pp. 153-163.
- Sarea, A (2012), The Level of Compliance with AAOIFI Accounting Standards: Evidence from Bahrain. *International Management Review*. The American Scholars Press. Vol. 8, No. 2, 2012. pp 27-33
- Sarea, A and Hanefah, M (2013), Adoption of AAOIFI accounting standards by Islamic banks of Bahrain. *Journal of Financial Reporting and Accounting*, Vol. 11 No. 2, pp. 131-142
- Shadia, R. (2007). Islamic accounting standards. Available at <http://islamic-finance.net/islamic-accounting/acctg5.html>. pp. 1-9 (Accessed: 7 May 2011).
- Zaini, N. (2007). An exploratory study on the understanding of AAOIFI accounting standards for investment in Islamic bonds: the case of Malaysian's accounting academics. (Master thesis). International Islamic University Malaysia.