LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

Technical Release *i*-4

Shariah Compliant Sale Contracts

TR *i*-4 *Shariah Compliant Sale Contracts* is issued by the MASB in respect of its application in Malaysia.

CONTENTS

MASB Technical Release *i*-4 *Shariah Compliant Sale Contracts* (TR *i*-4) is set out in paragraphs 1-25 and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms explained in Appendix A are in *italics* the first time they appear in the Technical Release. TR *i*-4 should be read in the context of its objective and the Basis for Conclusions, the *Foreword to Financial Reporting Standards*, the *Framework for the Preparation and Presentation of Financial Statements*, and Statement of Principles *i*-1 *Financial Reporting from an Islamic Perspective*. FRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

This Technical Release complements the MASB approved accounting standards, but is not itself an MASB approved accounting standard. Nothing in this Technical Release overrides any specific MASB approved accounting standards. However, in the extremely rare circumstances where there is a Shariah prohibition to a requirement in an MASB approved accounting standard, that requirement need not be complied with.

Introduction

Reasons for issuing the Technical Release

IN1 The Board had received requests for clarification on the accounting treatment of Shariah compliant sale contracts. Most notable was a request for guidance on recognition and derecognition of the subject item.

IN2 This Technical Release is issued to provide guidance on the application of MASB approved accounting standards to the financial reporting of transactions and events based on Shariah compliant sale contracts.

Main features of the Technical Release

IN3 This Technical Release prescribes the application of MASB approved accounting standards to the recognition, measurement, disclosure and presentation of a transaction or event, or series of transactions or events, based on Shariah compliant sale contracts.

IN4 This Technical Release asserts that an element of financing may occur in a Shariah compliant sale contract, for example when it is conducted on credit terms.

IN5 This Technical Release requires an entity to determine whether a series of transactions are linked and prescribes that linked transactions should be accounted for as one transaction.

IN6 For financial reporting purposes, an asset is only derecognised when derecognition criteria in MASB approved accounting standards for that asset are satisfied.

Technical Release *i*-4
Shariah Compliant Sale Contracts

Objective

1 The objective of this Technical Release is to provide guidance on the application of MASB approved accounting standards to transactions and events based on a *Shariah compliant sale contract*.

Scope

2 This Technical Release applies to the accounting of a Shariah compliant sale contract except for contracts for sale of *usufruct*.

Subject of sale

Recognition

3 The cost of an item acquired in a Shariah compliant sale contract shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

4 It may be the case that at the time of the acquisition of an item, there is already an arrangement to dispose of the item acquired. If no future economic benefits associated with the item are expected to flow to the entity, such an item may not be recognised as an asset. However, for record-keeping purposes, memorandum entries may be made in respect of the acquisition and disposal to indicate that a sale transaction had taken place.

Classification

5 An item which is the subject of a Shariah compliant sale contract, which is recognised in the statement of financial position, shall be classified according to the definition it meets in MASB approved accounting standards and treated in accordance with the applicable MASB approved accounting standards.

6 A Shariah compliant sale contract may be used to acquire items for various purposes. For example, an entity may purchase items to be sold in its course of ordinary activities, in which case the items may be classified as inventories. Alternatively, an entity may acquire an item for use in production, for rental, or for administrative purposes. Such an item may be classified as an item of property plant and equipment, or as investment property.

7 In other cases, the use of a Shariah compliant sale contract may give rise to an item that meets the definition of a *financial instrument*. In such circumstances, MASB approved accounting standards on financial instruments may apply.

Derecognition

8 The carrying amount of an item that is carried as an asset, and that is to be disposed through a Shariah compliant sale contract, shall be derecognised (eliminated from the statement of financial position) only when no future economic benefits associated with the item is expected to flow to the entity.

9 In some Shariah compliant sale contracts, an agreement to dispose of an asset may be accompanied by an arrangement to re-acquire the asset at a future date. For financial reporting purposes, an asset is only derecognised in a sale when *derecognition* criteria for that asset are satisfied.

Income on sale

10 *Revenue* shall be measured at the fair value of the consideration received or receivable.

Financing element in a sale

11 A Shariah compliant sale contract may contain a financing element or constitute a financing transaction. This can occur when there is a difference between the fair value of the consideration under normal credit terms and the nominal amount of cash or cash equivalents received or receivable, for example when the inflow of cash or cash equivalents is deferred.

12 When a Shariah compliant sale contract effectively constitutes a financing transaction, the fair value of the consideration is initially determined by discounting all future receipts using an imputed rate of return. The imputed rate of return would depend on the circumstances, examples may be:

(a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or

(b) a rate that discounts the nominal amount of the instruments to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as financing income, and shall be accounted for in accordance with MASB approved accounting standards on revenue and on financial instruments.

Purchase expenditure

13 Some costs related to the purchase of an item may qualify for *recognition* as an asset, for example the purchase price and directly attributable expenditure and transaction costs. Elements of costs that qualify for recognition as an asset are described in MASB approved accounting standards on inventories; property, plant and equipment; intangible assets; investment property; and financial instruments. Other expenditure that do not qualify for recognition as an asset may be an item of expense.

14 Purchase expenditure may also include financing costs. An entity may capitalise financing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset in accordance with MASB approved accounting standards on borrowing costs.

Piecemeal or deferred delivery

15 Some Shariah compliant sale contracts may involve the performance by the entity of a contractually agreed task over an agreed period of time. For example, in *Salam*, the buyer pays first and delivery of the goods comes later. In *Istisna'*, the item is manufactured, fabricated, or constructed after the contract is entered into.

16 Some contracts may be directly related to construction contracts. Revenue arising from these contracts may be dealt with in accordance with the requirements specified in MASB approved accounting standards on construction contracts.

17 Some contracts may give rise to a *financial asset* of one entity and a *financial liability* or equity instrument of another entity. Such items may be dealt with in accordance with MASB approved accounting standards on financial instruments.

Linked transactions

18 An entity that has entered into a series of transactions which involves one or more Shariah compliant sale contracts shall determine whether the series of transactions is linked and should be accounted for as one transaction.

19 A series of transactions is linked and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. This is the case, for example, when the series of transactions are closely interrelated, negotiated as a single transaction, and takes place concurrently or in a continuous sequence.

20 Under *Shariah*, the different transactions in a series of transactions are contracted separately and are considered independent of each other. However, accounting principles may require that the series be accounted for as one transaction if their economic effects are deemed to be linked.

Receivables and payables

21 An amount receivable or payable in respect of a sale or disposal based on a Shariah compliant sale contract shall be treated in accordance with applicable MASB approved accounting standards. Where an entity applies *Financial Reporting Standards (FRSs)*, the amount receivable or payable shall be treated in accordance with the relevant category of financial instrument in FRS 139 Financial Instruments: Recognition and Measurement.

22 A Shariah compliant sale contract may lead to the recognition of amounts receivable and payable. Where an entity applies FRSs, such receivables and payables would meet the definition of a financial instrument under FRS 132. The treatment of the receivable or payable would depend on the category under which it falls in FRS 139.

Disclosure

23 An entity shall disclose important salient features of significant transactions and events based on Shariah compliant sale contracts. In addition, an entity shall disclose its accounting policies for Shariah compliant sale contracts in accordance with MASB approved accounting standards on the presentation of financial statements.

Presentation

24 Amounts related to different Shariah compliant sale contracts shall be presented separately either on the face of the financial statements or in the notes.

Effective date

25 An entity shall apply this Technical Release for annual periods beginning on or after 1 January 2011. Earlier application is encouraged. If an entity applies this Technical Release for a period beginning before 1 January 2011, it shall disclose that fact.

Appendix A
Explanations of terms used

This appendix is included to explain some of the terms used in the Technical Release. The explanations are intended to serve as a guide and may not necessarily capture the complexities of the terms, while the translations are literal renditions that may not necessarily convey the nuances behind the Arabic terms.

derecognition (of a financial instrument)	The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.
financial asset	Any asset that is: a. cash; b. an equity instrument of another entity; c. a contractual right: i. to receive cash or another financial asset from another entity; or ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or d. a contract that will or may be settled in the entity's own equity instruments and is: i. a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

financial instrument — Any contract that gives rise to a **financial asset** of one entity and a **financial liability** or equity instrument of another entity.

financial liability — Any liability that is:

a. a contractual obligation:

   i. to deliver cash or another financial asset to another entity; or

   ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

b. a contract that will or may be settled in the entity's own equity instruments and is:

   i. a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

   ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Financial Reporting Standards (FRSs) — Standards and Interpretations issued by the Malaysian Accounting Standards Board (MASB). They comprise:

a. Financial Reporting Standards; and

b. Interpretations originated by the Issues Committee or the former Interpretations Committee.

Istisna'	A sale in which the subject is an item that has yet to be fabricated, manufactured, or constructed. Delivery of the item takes place at a future pre-determined date. The consideration may be paid before, at or after delivery, or based on the stage of completion.
recognition	The process of incorporating in the statement of financial position or statement of comprehensive income an item that meets the definition of an element and satisfies the following criteria for recognition: a. it is probable that any future economic benefit associated with the item will flow to or from the entity; and b. the item has a cost or value that can be measured with reliability.
revenue	The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an enterprise when those inflows result in increases in equity, other than increases relating to contributions from equity participants.
Salam	A sale in which the consideration is paid at the time of contracting, while delivery of the subject item takes place at a future pre-determined date.
Shariah	Islamic laws derived from Al-Quran and As-Sunnah.
Shariah compliant sale contract	A contract of exchange that is intentionally in compliance with Shariah tenets on sale contracts. Translated from the Arabic *aqad al-mu'awadah*. Indicators of intentional compliance may include ensuring that the Shariah conditions for a sale are met, or that the subject item is *halal*.
usufruct	The right to use and enjoy the benefits accruing from an item, so long as that use or enjoyment does not alter or diminish the essence of the item.

Appendix B
An overview of Shariah compliant sale contracts

This appendix does not form part of the Technical Release. It is included to provide an overview of Shariah compliant sale contracts, and should be read as background material to the Technical Release.

Introduction

B1 Various terms are used to describe the different features of Shariah compliant sale contracts. Some of the more commonly used terms are as follows:

(a) Terms that refer to the selling price of the item:

(i) Murabahah – a sale above cost in which the seller must disclose to the buyer the cost of the item sold

(ii) Musawamah – a sale above cost with no requirement to disclose the cost of the item sold

(iii) Tauliah – a sale at cost

(iv) Wadhiah – a sale at a discount

(b) Sales with payment(s) after delivery of the item sold:

(i) Bai' Bithaman Ajil / Bai' Muajjal – may be paid with either a bullet payment or in instalments

(ii) Bai' al-Taqsit – paid in instalments

(c) Sales where there is a time-lag between contracting and the delivery of the item:

(i) Istisna' – a sale in which the seller makes, manufactures, or constructs the item after contracting the sale. Payment may be before, at or after delivery, or based on the stage of completion

(ii) Salam – a sale in which the consideration is paid in advance, while delivery of the subject item takes place at a later date

(d) Terms that refer to a specific type of item exchanged:

(i) Sarf – currency trading

(ii) Bai’ al-Dayn – sale of debts or receivables

(e) Terms that indicate sales arranged with a view to obtaining cash financing:

(i) Inah – a sale, or series of sales, and re-purchase of an item such that the item ends up back with the original seller

(ii) Tawarruq – an arrangement where an item is sold and re-purchased through various parties.

Shariah compliant sale contracts in Malaysia

B2 Shariah compliant sale contracts are used in both the banking sector and capital markets. A Shariah compliant sale contract may be used either on its own or, more often, as part of a series of transactions. The following are brief descriptions of the more common contracts used in Malaysia.

Murabahah and Bai’ Bithaman Ajil

B3 Murabahah is a sale above cost in which the seller must disclose the cost of the item sold to the buyer. In a Murabahah sale, the settlement of payment may be in cash, in instalments over a specified period, or in full on a specified date.

B4 Bai’ Bithaman Ajil is a sale where payment is deferred, either in instalments over a specified period, or in full on a specified date. The selling price may be below, at or above cost.

B5 Prior to the issuance of *Shariah Parameter Reference 1: Murabahah* issued by Bank Negara Malaysia, ‘Murabahah’ usually denoted a credit period of one year or less, while ‘Bai’ Bithaman Ajil’ usually denoted a credit period exceeding one year.

B6 Murabahah and Bai’ Bithaman Ajil are the more popular underlying concepts for home and property financing and term financing. Similarly, in the capital market, Murabahah and Bai’ Bithaman Ajil account for a significant portion of the total value of Islamic corporate bonds.

B7 In a typical Murabahah or Bai' Bithaman Ajil banking transaction, a customer would order an item (e.g. a house) from a bank. The bank would then purchase the item from a supplier (e.g. a housing developer) and sell the item to the customer at a profit. Alternatively, a customer may sell an item (e.g. his house) to a bank, and the bank would then re-sell the item back to the customer. The customer would settle payment for the item in instalments over a specified period. In most cases, the bank's purchase and subsequent re-sale occurs within a very short span of time and would be eliminated in a contra entry.

B8 Islamic financial institutions (IFIs) may, either itself or through a related party, carry inventories of items to be sold based on Murabahah or Bai' Bithaman Ajil. The IFI may either make cash sales or, as more often is the case, offer credit sales to its customers. In most cases, the terms of the credit sales would be similar to bank financing.

B9 In the capital market, Shariah compliant sale contracts are popularly used as underlying concepts for *sukuk*, colloquially referred to as 'Islamic bonds'. The structures of individual *sukuk* issuances can vary significantly, some taking on forms of securitisation. Typically, an entity would sell an identified item for cash consideration, and undertake to repurchase that same item with a profit to the buyer on deferred payment basis. The identified item is usually an item of real property.

Salam

B10 Salam is a sale contract where the consideration is paid before the item is delivered. There is a consensus among jurists that the subject of sale need not be in existence at the time of sale, but the quantity and quality of the item must be agreed upon at the time of sale. An example would be a farmer accepting money from a customer for *x* amount of agricultural produce of grade *y* that will be delivered once it has been harvested. In general, any item that can be described in quantity and quality may be the subject of Salam; however there is a prohibition on Salam of gold, silver and currencies.

B11 ‘Parallel Salam’ is an arrangement where an entity, B has purchased an item from A and sold the item to another party, C. When A delivers the item to B, B will deliver the item to C. An example would be a retailer who orders an item from a supplier once it contracts a sale with a customer.

B12 Parallel Salam can also yield a financing structure where the excess between the selling and buying price of the intermediary, e.g. a financial institution, may be deemed finance income.

Istisna’

B13 Istisna’ comes from the root word *sa-na-‘a*, which denotes making, manufacturing, or constructing. Like Salam, the subject of Istisna’ is not yet in existence at the time of sale; usually the subject of Istisna’ is something that has yet to be made, manufactured or constructed. Unlike Salam, payment for the item may be made in advance, upon delivery, or deferred.

B14 There is also Parallel Istisna’. The structure is similar to that of Parallel Salam except that payment need not necessarily be made in advance, but may be deferred, in instalments, or according to the stage of completion.

Sarf

B15 Sarf is described in the *Mejelle*[1] as ‘the sale of money for money’. It may be used for currency exchange, like that of money-changers. Originally, such sales were permissible only on spot basis. However, contemporarily, it may be used with other arrangements such as *wa’d* to yield foreign exchange transactions.

Bai’ al-Dayn

B16 Dayn means ‘debt’. The term Bai’ al-Dayn is used to denote the sale of debts or receivables. Bai’ al-Dayn can be used to approximate traditional factoring or mortgage financing. It can also be used to facilitate the trading of debt papers on the

[1] The *Mejelle* or *Al Majalla al Ahkam al Adaliyyah* was the civil code of the Ottoman Empire in the late 19th and early 20th centuries. It was the first attempt to codify a part of the Shariah based law of an Islamic state.

secondary market. Some jurists allow Bai' al-Dayn when regulatory controls ensure that *gharar*, or uncertainty, is reduced to an acceptable level.

Bai' al-Inah

B17 Bai' al-Inah occurs when an entity makes a sale followed by a re-purchase of the same item from the same party. In Malaysia, Bai' al-Inah is often used for personal financing and credit card facilities. A financing effect is achieved when the bank sells an item (e.g. a plot of land designated for Bai' al-Inah transactions) to the customer for $x+p$ on credit terms, and the customer re-sells the item back to the bank for x on cash terms.

Tawarruq

B18 There are two types of Tawarruq – organised and non-organised. In organised tawarruq, there are at least three parties arranging a series of sales on credit terms and purchases on cash terms. In non-organised - or classical – tawarruq, the sales and purchases are not pre-arranged. Tawarruq is commomly used in deposit-taking and financing.

B19 In Malaysia, tawarruq is the underlying concept in the Commodity Murabahah Programme (CMP), a liquidity management tool for Islamic financial institutions. When a bank with excess liquidity wants to make a placement with a second bank, it would purchase crude palm oil (CPO) from Broker *A* and sell the CPO to the second bank for $x+p$ on deferred payment basis. The second bank would then ask the bank to re-sell the CPO – on its behalf - to Broker *B*. The proceeds, x, that the bank gets from Broker *B* would be placed with the second bank.

Shariah compliant sale contracts with variable rates

B20 Traditionally, the use of Shariah compliant sale contracts in banking had resulted in fixed-rate financing. This was because the ruling that the price must be known at the time of contracting to eliminate *gharar*, or uncertainty, was often interpreted to mean that the price had to be fixed. As a result, Islamic financial institutions faced the risk of a funding mismatch when providing long-term fixed-rate financing funded by short-term variable rate deposits. Fixed rates may also inconvenience customers; those who had previously locked-on to higher rates would be disadvantaged in times of falling market rates.

B21 To enhance asset-liability management of IFIs and to address customers' grievances, BNM allowed variable rate financing based on various Islamic principles.

B22 Under variable rate Bai' Bithaman Ajil, the selling price of an item would be fixed at a 'ceiling profit rate'. This ceiling profit rate would be set at a pre-determined level above the base financing rate, and would be higher than the prevailing profit rate for fixed rate Bai' Bithaman Ajil. In times of low market rates, the bank would grant a rebate, or *ibra'*, at every instalment to match the instalment to the prevailing market rate. In times of rising market rates, the effective profit rate would be capped at the ceiling profit rate.

B23 Similarly, the Securities Commission had resolved that a floating rate mechanism can be applied for *sukuk* based on Murabahah, Bai' Bithaman Ajil, and Istisna'.[2]

[2] Securities Commission, *Islamic Capital Markets: Frequently Asked Questions*, available on http://www.sc.com.my/staging/main.asp?pageid=256&menuid=285&newsid=&linkid=&type= [accessed on 30 January 2009]

Contracts commonly used in contemporary Islamic finance

- Contracts of exchange, *uqud al-mu'awadat*
  - Exchange for goods
    - Spot sale
      - Murabahah
      - Musawamah
      - Tauliah
      - Wadhiah
    - Deferred payment
      - Bai' Bithaman Ajil
    - Deferred delivery
      - Salam
      - Istisna'
    - Other sales
      - Bai' al-dayn
      - Sarf
      - Tawarruq
      - Bai' al-Inah
  - Exchange for usufruct
    - Ijarah
    - Ijarah Muntahia Bittamleek
    - Ijarah Thumma al-Bai'
    - Ijarah Mausufah fi zhimmah
    - Ijarah Mudhafah ilal Mustaqbal
- Contracts of profit-sharing, *uqud al-ishtirak*
  - Mudarabah
    - Muqayadah
    - Mutlaqah
  - Musharakah
    - Inan
    - Mufawadah
    - Abdan
    - Wujuh
    - Mutanaqisa
  - Others
    - Muzara'ah
    - Musaqah
- Other contracts / concepts
  - Wadiah (safe keeping)
  - Gratuity
    - Hibah (gift)
    - Wasiat (bequest)
  - Ibra' (rebate)
  - Service
    - Wakalah (agency)
    - Jua'lah (reward)
  - Rahnu (pledge)
  - Tabarru'
    - 'Ariyah
    - Qardh
    - Waqaf

This table shows some of the commonly used contracts in contemporary Islamic finance. It is not exhaustive, and Islamic financial transactions are not limited to the use of only these contracts. Shariah compliant sale contracts are shaded in grey.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Technical Release.

Introduction

BC1 This Basis for Conclusions summarises the Board's considerations in reaching the conclusions in TR *i*-4 *Shariah compliant sale contracts*.

BC2 In 2001, a working group was formed with the responsibility for identifying the need for an accounting pronouncement on Murabahah and Bai' Bithaman Ajil, and ensuring that the proposed pronouncement would be consistent with developments in Islamic-based transactions and the requirements of current law and regulations with reference to accounting pronouncements and practices in other major standard setting jurisdictions. The working group was chaired by a former member of the MASB, and comprised representatives from the accountancy profession, academia, the corporate sector, statutory bodies and other user groups.

BC3 In 2006, the intended content of the proposed Technical Release was expanded to address other Shariah compliant sale contracts, as well as their use in conjunction with other Islamic concepts, and their use beyond financial institutions.

Scope

BC4 Early in the project on Islamic financial reporting, the Board had planned to issue a pronouncement on accounting for Murabahah and Bai' Bithaman Ajil transactions. However, Shariah compliant sale contracts were not limited to just these two; thus, the Board decided to widen the scope of its project to include other Shariah compliant sale contracts because despite their operational or juridical differences, they appeared to bear similar economic consequences such that the same accounting principles may apply.

BC5 Nevertheless, the Board decided to exclude contracts for exchange of usufruct from the scope of this pronouncement because of issues unique to such contracts, for example, whether a right is a separately identifiable asset from the underlying asset. Such issues may be addressed in a separate project.

A principles-based pronouncement

BC6 In arriving at its conclusions, the Board had given due consideration to accounting pronouncements issued by other prominent standard setters and other accounting literature on Shariah compliant sale contracts.

BC7 However, the Board noted that many writings were concerned with providing accounting prescriptions, rather than principles, for particular contracts or products. The Board also noted that these writings tended to address only four commonly used contracts, namely Murabahah, deferred payment sales, Salam and Istisna'; and only as used in a particular manner, i.e. as practiced by some Middle Eastern Islamic financial institutions (IFIs).

BC8 While this may be suited to their goals and objectives, it does not suit the Board's circumstances. The Board is mandated to provide financial reporting pronouncements for all entities under the purview of the Financial Reporting Act, and not just IFIs. The Board noted that Malaysian entities may use other than the four sale contracts mentioned, and in a manner different from that commonly addressed in prominent writings. Thus, the Board thought it appropriate to promulgate a principles-based pronouncement that would address Shariah compliant sale contracts more holistically.

Derecognition

BC9 The Board was made aware that in some sale contracts, there may be an accompanying arrangement to re-acquire the sold item at a later time. The Board respects that such sales may be deemed a 'true sale' in Shariah and/or commercial law. However, in the Board's opinion, derecognition in accounting would only occur if derecognition criteria for that asset are met. Moreover, the Board believes that it would be in keeping with Islamic principles to present users with the actual economic effect of the transaction with notes relating how that effect arose, rather than to merely present the contractual form of the transaction.

Financing element in a sale

BC10 Initially, the Board was advised that it may be controversial to present the financing effect of a Shariah compliant sale contract. The controversy appears to stem from the perception that financing is synonymous with lending, and thus any financing income would be *riba*. However, in contemporary Islamic banking parlance, 'to finance' simply means to provide financial assistance for another party to obtain ownership of an asset. Although lending is one form of financing, the two are not synonymous; and a financing effect may be achieved by using an array of Shariah compliant transactions. Thus, the Board could see no reasonable objection to the presentation of a financing effect, if the financing transaction itself was not objectionable.

Linked transactions

BC11 The Board understands that under Shariah, contracts must be entered into separately. Nevertheless, the Board is of the opinion that for economic decision making, it is often more useful to show the overall effects of transactions which were negotiated as part of the same arrangement. Thus, in some cases a series of separate transactions may be reported as linked transactions. However, as accounting is merely a recording function, whether or not a series of transactions is linked would neither sanctify nor nullify the Shariah validity of the transactions.