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# THE ACCOUNTING TREATMENT OF THE LEASE ENDING WITH OWNERSHIP STANDARD FOR ISLAMIC ACCOUNTING STANDARD NO. (8) (32) AND ITS IMPACT ON TRANSPARENCY AND ACCOUNTING DISCLOSURE (A PROPOSED MODEL)

**BY**

**Basim Mohammed Merhej[1], Ali Nadhem Abdul Ameer[2], Alaa Shihab Jaber[3], Hayder Abbas Alataar[4]**

[1,2,3,&4] *Al-Muthanna University - College of Administration and Economics*

**Abstract**

This research aims to demonstrate the efficiency and suitability of the accounting treatment for lease ending with ownership in accordance with Islamic Accounting Standards No. (8) and (32), and to determine the impact of applying these treatments on the level of transparency and financial disclosure in the financial statements of Islamic institutions, in order to propose a developed accounting model that contributes to enhancing reliability and clarity in presenting financial information that is consistent with the provisions of Islamic Sharia,The research findings confirm that the application of standards (8) and (32) represents a fundamental step in developing the Islamic financial reporting environment towards greater transparency, fairness, and full disclosure. The research recommends the need to update national accounting systems (especially in Iraq) to comply with the requirements of AAOIFI standards, and to intensify training and professional qualification programs for accountants working in Islamic banks.

**Keywords** (Islamic Accounting Standard No. (8) -Islamic Accounting Standard No. (32)- Transparency - Accounting disclosure-Financial institutions)

## Introduction

Since the advent of Islam, scholars have unanimously agreed on the permissibility of leasing contracts, considering them a legitimate contract based on the transfer of ownership of a benefit in exchange for a known consideration and for a specified period. The concept has evolved in the modern era to take the form of financial leasing, practiced by Islamic financial institutions to finance assets such as real estate and equipment. This is a newly introduced contract that achieves economic benefits for both parties.

Islamic finance is a contemporary financing method that is compatible with the provisions and principles of Islamic Sharia. It aims to finance small, medium, and micro enterprises using financing mechanisms based on the principle of risk and return sharing, free from the usurious interest system prohibited by Sharia.

The concept of disclosure and transparency is one of the established concepts in accounting thought as a tool of communication between the company and the outside world. It is considered one of the important issues that has occupied the attention of accountants and non-accountants due to its impact on the decisions and actions of those interested in business activities. Today, they are demanding more disclosure and more transparency in order for financial reports to be truthful and expressive of the true content of financial events.

Since their inception, Islamic banks have witnessed a diversity of accounting interpretations and treatments related to their financial operations, which led to the need to unify practices and establish accounting standards specific to their nature. Hence, the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which prepared specialized Shari'a accounting standards for Islamic financing instruments, including Islamic Financial Accounting Standard No. (32) on leasing, with the aim of addressing the economic phenomena in Islamic banks and providing reliable, comparable, and relevant financial information for users of financial statements.

Islamic finance is a rapidly growing field in the modern economy. Islamic financial institutions develop their financial products in strict compliance with the principles of Sharia, with the aim of achieving the objectives of Sharia. These products are structured differently, as they exclude usury and other prohibited matters (Hamad, 2018).A study by Abdul Karim et al. (2021) indicated a relative shortcoming in accounting practices in Islamic banks compared to conventional banks. This is due to their recent establishment and the absence of specialized accounting and regulatory standards covering all financial aspects. The study emphasized the importance of increasing accounting research in the field of Islamic banks to strengthen the link between scientific and practical aspects, develop accounting performance in a manner consistent with Sharia provisions, and contribute to consolidating the future position of the Islamic economy. The study (Abu Bakr, 2016) concluded that the accounting measurement and disclosure of leasing and lease-to-own contracts in Islamic banks are not fully consistent with the requirements of Islamic Financial Accounting Standard No. (8) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as some banks still rely on traditional accounting treatments that do not accurately reflect the legal and economic nature of Islamic leasing contracts. Ijarah ending with ownership is one of the modern financial contracts that emerged to meet the needs of individuals and communities in light of contemporary economic and commercial developments. The standard leasing differs in Islamic standards in terms of the concept of leasing in international standards, whether it is a lease or a lease of ownership status, which is a single lease contract with the payment of another installment. Ijarah ending with ownership is the focus on the leasing practiced in conventional banks that apply the traditional sale and lease of possession (Al-Mawla, 2019). Al-Mikhlafi's study (2017) concluded that central banks in other Islamic countries have obligated their affiliated banks to apply Islamic financial accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), with Arabic being adopted as the official language of those standards. One of the studies addressed the application of Islamic Financial Accounting Standard No. (27) for investment accounts in Jordanian Islamic banks, and demonstrated the impact of its application on the financial statements for the year 2017 and the extent of banks' compliance with the disclosure and measurement requirements according to the AAOIFI standards. Previous studies by Murshid (2022); Al-Halabi et al. (2020); and Allah (2020) did not apply Islamic and conventional financial reporting standards to Islamic financial instruments when making comparisons. Furthermore, most studies do not consider recent updates to conventional standards due to the standardization efforts undertaken by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). Hammad's study (2019) reached a set of conclusions, most notably that the Islamic financial accounting standard for leasing contracts differs in concept and application from international standards. While international standards consider leasing ending with ownership to be achieved once the final installment is paid and ownership of the asset is transferred directly to the lessee, the Islamic standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) distinguish between leasing and sales in terms of their legal nature and financial results. The leasing ending with ownership contract is considered a project in which the provisions of leasing are applied throughout the term of the contract, and ownership of the leased property is not transferred until the end of the leasing term and after completion of the ownership procedures stipulated in the contract. Muhammad (2022) believes that leasing is a contract between two parties in which one party leases a specific commodity to the other in exchange for a specific fee paid by the lessee in installments over a specified period. Ownership of the commodity is then transferred to the lessee upon payment of the final installment under a new contract. The Islamic leasing formula can be used within the framework of unemployment insurance within approved formulas at its level, provided that a financial institution qualified to leasing or own becomes an intermediary between the unemployed young student and the Islamic institution (Omar and Faidi: 65, 2020). Talbi's study (2021) concluded that leasing still lacks effective regulation despite the emergence of a number of financial institutions offering it, and that its contribution to financing the national economy remains limited, particularly in supporting small and medium-sized enterprises. The researcher also attributed this to the difficult conditions imposed, which make leasing a relatively unsuitable financing technique for this category of enterprises. The results of one study showed that leasing faces multiple challenges related to the adequacy of supply and the difficulty of obtaining financing despite the increasing demand for it, especially from small and medium-sized enterprises. The study also showed that leasing is a relatively high-cost source of financing, but it holds promising opportunities for expansion if it receives attention and support from the relevant authorities (Maliki et al., 2022). In a study (Farihat, 2016), which compared the two contracts, ijarah ending with ownership and financial leasing, from a legislative and accounting perspective, the results highlighted that financial leasing is characterized by the clear transfer of ownership or the possibility of ownership at the end of the contract, while ijarah ending with ownership entails special accounting and legislative consequences due to its distinctive nature. A study (Rabekh, 32:2020) indicated that ijarah ending with ownership represents one of the forms of Islamic financing used in Algerian banks, as it is considered a legitimate alternative to traditional interest-based financing. The results also highlighted a 20% decrease in Murabaha financing, compared to a 10% increase in Ijarah financing during 2019, reaching approximately $7,107 million.A study by Shamout (2019) recommended amending AAOIFI (FAS 8) to align with contemporary requirements without abandoning Sharia principles. The draft of the proposed standard included some amendments that are similar to IFRS 16 in terms of structure, but not necessarily in all details.

However, the problem is more prominent in the Iraqi environment, as the accounting system applied in banks and insurance companies still does not keep pace with international developments and standards issued by specialized bodies. Furthermore, Accounting Rule No. (10) regarding the disclosure of financial statements of banks and similar financial institutions, issued by the Accounting and Financial Supervision Standards Board of the Republic of Iraq, did not take into account the operational specificity of Islamic banks or the nature of the financing instruments they use. This has negatively impacted the accuracy of accounting measurement, the level of disclosure, and the quality and fairness of financial statements. Although the Islamic Banking Law and the instructions of the Central Bank of Iraq oblige banks to implement AAOIFI standards, some banks still do not apply these standards correctly and fully, which calls for studying this defect and addressing its accounting and disclosure implications.

This research aims to identify the nature of Islamic banking operations and their financing tools, with a focus on Islamic Financial Accounting Standard No. (32) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). It also aims to demonstrate the impact of its implementation on enhancing transparency and financial disclosure and improving the quality of financial statements. The research also seeks to analyze the accounting treatments contained in the standard and propose treatments that are compatible with the banking environment in Iraq. It also aims to evaluate the impact of the standard's application on accounting measurement, presentation, and disclosure, thus contributing to raising the level of reliability and comparability in the financial reports of Islamic banks.

The importance of this research lies in clarifying the impact of applying Islamic accounting standards No. (8) and (32) related to lease-to-own on enhancing transparency and financial disclosure in Islamic banks, through proposing an accounting model that contributes to improving the quality and reliability of financial information in accordance with the provisions of Islamic Sharia.

Research hypotheses: (There is a significant relationship between the application of standards (8) and (32) and the level of transparency and financial disclosure in Islamic banks. The proposed accounting model contributes to enhancing the clarity and reliability of financial information and achieving compatibility between Sharia and accounting requirements).

**Lecture review**

1- Islamic Accounting Standard No. (8) (32)

Al-Fateh (2020) examined the concept of lease-to-own, its origins, forms, and applications in Islamic banks. He explained that it is one of the most prominent forms of Islamic financing after Murabaha (Cost-Plus Financing) and Mutharika (Joint Partnership / Equity Participation), due to its role in developing human and professional capabilities. The study concluded that this form is legitimate based on Islamic legal texts, while emphasizing the need to develop its application frameworks in Islamic financial institutions.The results demonstrate the trend of Islamic banks in Algeria towards enhancing interest in leasing financing formulas, given their role in encouraging lending to the productive economic sector and reducing consumer loans, in line with the Central Bank’s orientation towards diversifying Islamic financing instruments (Rabekh: 2020). Shari'ah standards distinguish between two types of leases (AAOIFI, 2015):

1 .Operating (service) lease: Where ownership of the asset remains with the lessor, and the contract is not preceded by a promise of ownership.

2 .Lease ending with ownership (finance): A contract that enables the lessee to own the asset at the end of the term in exchange for payment of rent or specified installments, based on a prior promise of ownership.

This type of contract is considered one of the most prominent forms of contemporary Islamic financing, combining economic flexibility with Shari'ah compliance.

Al-Maamouri (2025) defined ijarah Lease Ending with Ownership / Lease-to-Ownas a lease contract that includes a promise to transfer ownership of the asset to the lessee at the end of the lease term, provided that the lease contract is separated from the ownership contract to ensure legality. Al-Hassoun (2022) defined it as a contract between two parties in which one party leases a specific commodity to the other in exchange for a specific rent paid by the lessee in installments over a specified period. Ownership of the commodity is then transferred to the lessee upon payment of the last installment under a new contract. Al-Sheikh (2022) defined it as a lease contract coupled with a promise to sell, whereby one of the contracting parties leases something to another for a specified period, at the end of which the lessee has the option to purchase it. Shammout defined ijarah Lease Ending with Ownership / Lease-to-Ownas a lease contract that includes a promise to transfer ownership of the leased property to the lessee after the end of the lease term, whether as a gift, sale for a nominal price, or payment of the full installments. It differs from installment sales in that there is an element of temporary benefit before final ownership (Shammout, 2019).

Among the most prominent conditions of ijarah Lease Ending with Ownership / Lease-to-Ownare: (Distinguishing between a lease contract and an ownership contract. The property is owned by the lessor and is subject to legitimate use. The lessor bears responsibility for basic maintenance and insurance during the lease term. The rent must be clearly defined and not linked to usurious interest. The contract must not include a condition that leads to uncertainty or uncertainty regarding the final ownership. (Shumout, 2019). Al-Maamouri (2025) believes that the property must be owned by the lessor, subject to legitimate use, the rent must be clearly defined, the lessor must bear responsibility for basic maintenance and insurance, and there must be no ambiguity or conditions that lead to usury or uncertainty.

Islamic finance is distinguished by several characteristics, the most prominent of which are (Omar and Faidi, 2020: 59)

1 .Adherence to the provisions of Islamic Sharia through the use of legitimate financing formulas such as Joint Partnership / Equity Participation Cost-Plus Financing, and Ajara.

2 .The financing institution retains ownership of the financed asset throughout the contract term, which contributes to reducing the level of financial risk.

3 .The lack of a relationship with interest rates, as Islamic finance relies on the returns generated by real economic activity rather than the interest rate. Prevalent in financial markets.

4 .Providing legitimate guarantees that protect the rights of all parties without compromising the principle of fairness and equality.

5 .Close connection to the real economy, making this type of financing more efficient and sustainable in supporting economic and social development.

The objectives of the leasing standard can be identified in light of Islamic Standard (37) (enhancing transparency and financial disclosure, improving comparison between companies, providing a basis for assessing cash flows, improving transparency in financial reporting, and ensuring accurate representation of financial transactions) (Muhammad, 2022).

A study (Al-Astal, 2015) concluded that future leasing represents a flexible tool for financing assets if transparency and detailed agreement are met, while cautioning against procedures that could turn into hidden sales if Sharia controls are neglected.

The research showed that adherence to the two standards in Jordanian Islamic banks positively reflects the transparency of the presentation of leasing contracts and their accounting treatment in accordance with measurement and disclosure requirements, enhancing the reliability of financial statements and the clarity of the institution's true financial position. (Al-Qudah, 2017).A study concluded (Asyiqin, 2025) indicated that there is a need to combine the technical requirements of international/Islamic standards with local accounting practices, and made recommendations to entities (especially companies with large lease contracts) to study the impact of applying the standards on financial statements, taxes and disclosures, and adopt appropriate disclosure policies to present the impact of lease contracts on the financial position.

The study found that the main difference between the two standards is that Financial Accounting Standard No. 8 focuses on the legal aspects of financial transactions, while International Accounting Standard No. 17 focuses on the economic aspects. The study also found that Sudanese Islamic banks adhere to Financial Accounting Standard No. 8 with regard to accounting measurement, but they do not adhere to Financial Accounting Standard No. 8 with regard to recognition, presentation, and disclosure in financial reports(Khalid ,2021).

Comparison table between Islamic Accounting Standard No. (8) and Standard No. (32) (kamil,2022) (wissam,2020) :-

| Accounting Item | Standard No. (8) – Leasing and Lease-to-Own | Standard No. (32) – Leasing | Comparison Point |
|---|---|---|---|
| Scope of Application | This section deals exclusively with lease-to-own contracts. | This includes all types of leases (operating, finance, and lease-to-own). | Difference |
| Nature of Contract | A lease-to-own contract is treated as a dual contract (lease + ownership). | It recognizes that a lease is a single contract that can be terminated through a separate agreement for ownership transfer. | Partial similarity |
| Revenue Recognition | Lease payments are recognized as a periodic source of income for the lessor during the contract term. | The same treatment applies: revenue is recognized on an accrual basis. | Similarity |
| Ownership of Leased Asset | Ownership remains with the lessor until the contract expires and is transferred through a separate ownership agreement. | The same principle applies: ownership transfers upon termination of the contract through a sale or gift agreement. | Similarity |
| Reporting in Lessor's Books | The asset is shown as a fixed asset and is depreciated over the contract period | While not fundamentally different, Standard (32) expands disclosure requirements and precisely defines measurement criteria. | Similarity with expansion |
| Reporting in Lessee's Books | Payment payments are considered operating expenses, and the lessee does not recognize any asset in their books. | The 'right to use' of an asset is recognized as an asset, and a corresponding liability is recognized. | Substantial difference |
| Depreciation and Amortization | Depreciation is the responsibility of the lessor only. | Depreciation is applied to the 'right to use' in the lessee's books as well. | Difference |
| Primary Contract Costs | It may be partially capitalized if material. | It is fully capitalized within the cost of the leased asset or right to use. | Difference |
| Presentation in Financial Statements | .The section does not specify the presentation details in the financial statements. | Assets and liabilities arising from a lease must be presented separately in the financial statements. | Difference in development |
| Purpose of Application | It regulates the treatment of lease-to-own contracts and clarifies the provisions for gradual ownership transfer. | The accounting framework is being developed to standardize treatment, enhance disclosure, and improve the quality of financial statements. | Difference |

**2- Enhancing transparency & financial disclosure**

The importance of transparency in accounting disclosure lies in the company providing real and clear information about the company's operations and activities to serve the beneficiary parties such as investors, creditors and others, so that the beneficiary can predict the future of the company and the extent of its ability to achieve profits. This is what is stipulated in the legislation and regulations imposed on the company and its commitment to protect shareholders, because the failure of companies to provide clear and transparent information leads to a weakening of investor confidence in these companies and thus not investing in them (Abdullah and Abdullah, 2024).Transparency is not a substitute for accounting disclosure, but rather a means to achieve it (full disclosure). This is achieved through adherence to ethical values and codes of professional conduct and providing an appropriate environment to improve the level of disclosure and achieve the quality of accounting information (Samira and Abbas, 11:2019).Transparency and disclosure are among the most important accounting principles that add credibility to financial information, which enhances investor confidence and leads to improved stock market efficiency, as information is reflected quickly and transparently in stock prices (Kalthoum and Mohammed, 2017).Transparency in accounting disclosure is a fundamental pillar for improving the quality of financial information and building trust in financial markets. Its importance lies in the following (Gegawi and Fathallah, 2017):

1 .Enhancing investor confidence through the proper application of transparency rules, which contributes to improving stock performance and increasing profits.

2 .Reducing information gaps between financial report preparers and users, bringing disclosure closer to the ideal level.

3 .Improving decision-making efficiency by providing accurate and clear information to all stakeholders.

4 .Promoting professional and ethical behavior among accountants and investors alike, given the role of transparency in establishing ethical values in financial work.

5. Raising the level of accounting awareness and culture among users of financial information, leading to improved disclosure quality and sustained confidence in transparency.

For accounting transparency to be effectively achieved, a set of basic conditions must be met, the most important of which are (Essa, 2019):

1 .Clarity and accuracy of information: Accounting data must be presented in a clear and understandable manner, free from ambiguity or misleading information.

2 .Disclosure of errors and deviations: Transparency requires acknowledging and disclosing errors and irregularities objectively, along with stating their causes and the measures taken to correct them, thus enhancing credibility and trust.

3 .Comprehensive and balanced disclosure: Accounting reports should include all relevant, substantive information without concealment or selectivity.

4. Verifiability and credibility: Information must be verifiable from its sources and supported by official evidence and documents.

Accounting disclosure is one of the basic components of accounting information, as it contributes to providing information with high-quality characteristics that assist users in making decisions, enhancing the credibility and quality of financial reports (Noureddine and Ben Zaf, 2018).

Accounting disclosure is defined as: providing all necessary information that enables users of financial reports to obtain a clear and accurate picture of an organization's financial position, in a comprehensive and regular manner, thus helping them make appropriate economic decisions**.**

Researchers indicate that transparency and accounting disclosure are essential elements in enhancing the quality of financial information and supporting decision-making within institutions. According to recent studies:

1- The importance of accurate and detailed disclosure: Detailed disclosure of financial data helps provide users with accurate and reliable information, which supports their ability to assess the financial position and make sound investment decisions (Ahmed, Yahya, 2013: 48).

.2-The role of accounting standards and policies: Studies demonstrate that the existence of clear accounting standards and specific disclosure policies contributes to achieving transparency and ensuring the reliability of published information. Adherence to these standards also provides investors and stakeholders with an accurate and transparent information environment, which bolsters their confidence and reduces the risks associated with decision-making (Hafrai, 2021: 34).

.3Enhancing the credibility of information: Disclosure and transparency contribute to reducing doubts about the accuracy of financial reports and increase the credibility of the information provided to beneficiaries, whether investors, shareholders, or regulatory bodies, which enhances the overall efficiency of financial markets.

."Barriers to Accounting Disclosure: There are several barriers that limit management's willingness to disclose, including: (Muhammad, 2012)

1-Disclosure of information helps competitors obtain information about the company, which may harm its interests.

2-Disclosure improves the negotiating climate with international unions, which increases the costs incurred by the company.

3- The inability of various categories of financial statement users to understand and utilize much of the accounting information and data disclosed.

4- The availability of alternative sources that provide decision-makers with the necessary information at a lower cost than the company's management publishing it in the financial reports.

5-The company's lack of familiarity with the different information needs of various categories of financial statement users.

Similarities between Transparency and Accounting Disclosure (Kamel, 2022)

1 .Common Goal: Both transparency and disclosure aim to enhance the credibility of financial information and increase investor and shareholder confidence in financial reports.

2 .Complementarily in Implementation: Disclosure is part of the transparency process, as providing clear and detailed accounting information contributes to achieving transparency in financial reporting.

3. Supporting Corporate Governance: Both transparency and disclosure contribute to improving governance practices within companies, leading to more informed decision-making and reducing the risk of corruption and improper practices.

Differences between Transparency and Accounting Disclosure (Abdullah and Abdullah, 352:2024)

1 .Definition:

- Accounting Disclosure: The process of presenting financial and non-financial information related to a company's financial activities and operations, according to specific accounting standards.
- Transparency: Refers to the clarity and reliability of the information provided, and the company's commitment to providing information periodically and in a timely manner.

2 .Nature:

- Accounting Disclosure: Is conducted periodically and systematically, and is based on specific accounting standards such as International Financial Reporting Standards (IFRS).
- Transparency: Relates to a company's culture and commitment to ethical values in providing information, and may exceed legal requirements.

3 .Impact on Stakeholders:

- Accounting Disclosure: Provides investors and shareholders with specific information to assist them in making investment decisions.
- Transparency: Enhances public confidence in a company and contributes to improving its reputation, which may lead to attracting new investments.

**Accounting treatments**

Al-Maamouri's study focused on analyzing the accounting treatment of Ijarah-Lease Ending with Ownership / Lease-to-Own contracts according to the amended Islamic Accounting Standard No. (8), comparing the practical application among Islamic financial institutions in Jordan. The researcher provided an introduction that clarifies the importance of the Ijarah-Lease Ending with Ownership / Lease-to-Own formula as an Islamic financing tool that replaces usurious loans. It allows for the use of the leased property with the transfer of ownership after the end of the contract (Al-Maamouri, 2025). It is necessary to update the unified accounting system for banks and companies or issue an independent system that takes into account the specificities of Islamic banks and their business requirements, in line with the accounting and disclosure standards issued by the International Accounting Standards Organization (AAOIFI), to ensure accurate accounting measurement and disclosure that reflects the nature of Islamic financing instruments and enhances transparency and the quality of financial reports (Karim, 2021).

The Ijarah-Lease Ending with Ownership / Lease-to-Own formula differs from financial leasing, from a legislative and accounting perspective, as it was shown that the former is characterized by the arrangement of ownership after the end of the contract, while the latter focuses on leasing and then transferring ownership through different mechanisms. The study found that the practical application of both standards faces challenges in terms of compliance with Sharia and accounting controls, and there are still implementation gaps within financial institutions. In light of this, the study recommended the need to unify legislative and accounting frameworks and train personnel to improve the efficiency of implementing both formulas (Farihat, 2016). The study (Shamout, 2019) recommended issuing explanatory appendices to the draft proposed AAOIFI standard, providing clear application examples, and conducting seminars and dialogues before its final implementation to ensure its compatibility with the reality of the Islamic banking sector. The study (Khalid, et al., 2021) concluded that traditional accounting standards, such as FAS 8, differ from Islamic financial accounting standards in their treatment of leasing contracts. It indicates that accounting practices in Islamic banks do not always conform to the requirements of the Islamic standard. Furthermore, some banks apply FAS 8 to measuring and recording transactions rather than adhering to the standard treatments issued by AAOIFI, which affects the accuracy of financial disclosure and the reliability of financial statements. The necessity of adopting the proposed accounting treatments for the standard, prepared in accordance with the accounting and auditing standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). As a result of the amendments to the Ijarah standard, Islamic financial institutions/banks must comply with the requirements of the standard (Kamel, 2022). The results of a study by Al-Maamouri (2025) revealed that practical implementation in Jordanian financial institutions faces challenges, such as discrepancies in installment recording and accounting disclosures, and the misalignment of some standards with practical reality. This necessitates staff training and the development of unified policies. The study recommended the development of standard contractual and accounting models and the adoption of clear instructions for implementing FAS 8 to ensure that accounting treatments comply with Sharia controls and financial disclosure requirements.

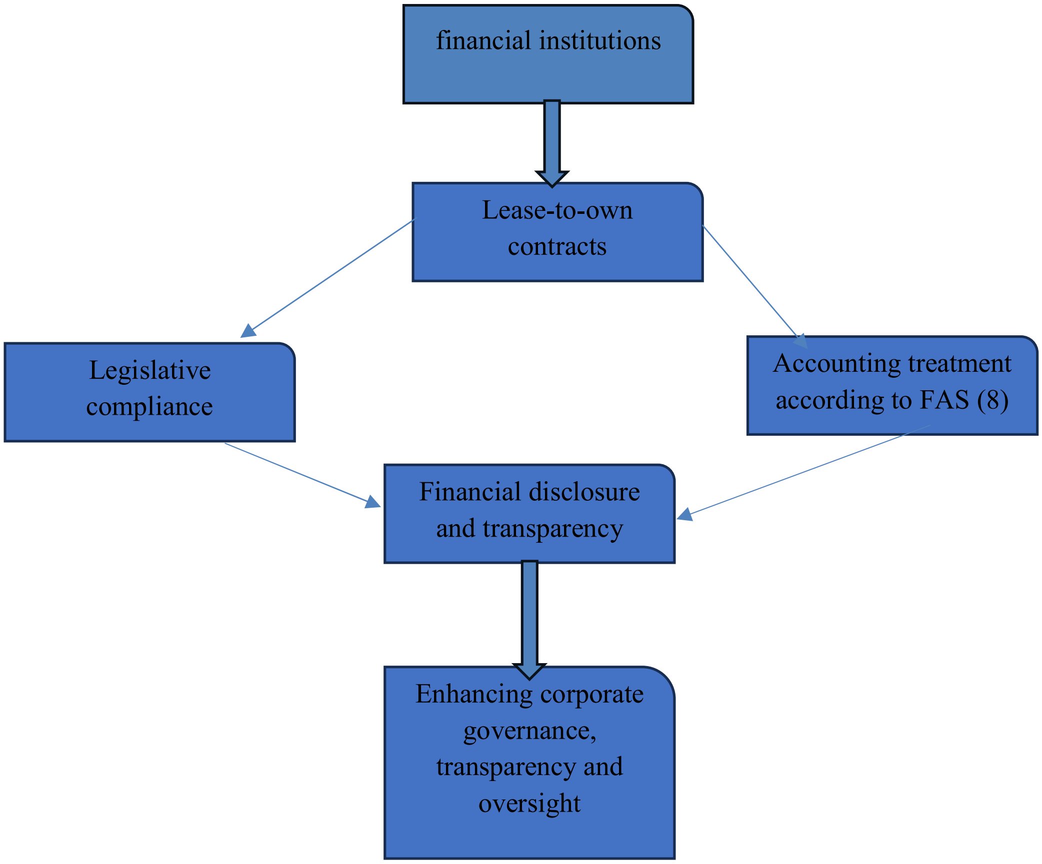
The relationship between the Ijarah standard and accounting treatments is evident in that the application of International Accounting Standard No. (32) and International Financial Reporting Standard No. (7) directly impacts the presentation and disclosure of financial instruments that include Ijarah contracts, particularly those that end with ownership or include rights of use and financial assets. These standards specify how leases are classified into assets, right-of-use, and financial liabilities, and require disclosure of the associated risks in the financial statements (Al-Qudah, 2017). Prior to the implementation of modern reporting standards, many entities did not present lease items on the balance sheet (or presented them as recurring operating expenses). After applying the concepts of presenting the right-of-use and liability leases, assets (right-of-use) and contractual liabilities appear on the balance sheet, altering the financial position and net profit ratios. This observation is consistent with the results of research comparisons on the effects of IFRS 16 and Islamic Standardization Groups (Barouba, 2018).

The AOSSG (2023) report provided an update on the financial statements of Islamic financial institutions, assessing their compliance with International Financial Reporting Standards (IFRS) and the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The report indicated that leasing contracts represent one of the contracts with the greatest impact on financial statements, and that there is a discrepancy in the accounting treatment of leasing between institutions that apply IFRS 16 (lease contracts) and those that follow the Islamic standard FAS 8 (leasing and leasing ending with ownership).

There is a discrepancy in the accounting treatment of leasing contracts between Algerian banks and international standards, leading to differences in financial disclosures. It has been proven that current practices require unification of accounting standards and practices to ensure clarity of revenue and reduce financial risks. The study recommended the need to train accounting personnel to deal with these contracts according to AAOIFI standards or modified local standards in accordance with the provisions of Sharia. The study emphasized the importance of transparent disclosure of due installments, the book value of assets, and expenses related to maintenance and insurance to ensure the accuracy of financial statements (Abdul Rahman et al., 2024). Explains the accounting treatments for Ijarah Lease Ending with Ownership / Lease-to-Own contracts according to AAOIFI compared to IFRS (Fadul etal. (2024)

| **Accounting Element** | **AAOIFI (FAS 8)** | **IFRS / Conventional Finance** | **Notes** |
|---|---|---|---|
| **Register the leased asset** | **The asset is recorded in the lessor's books and shown as a leased asset until the end of the contract.** | **Often treated as a debt or loan financial instrument.** | **AAOIFI separates the leased asset from future lease rights.** |
| **Revenue** | **Recognizing revenue on a periodic basis based on the installments due (legitimate rental income)** | **Recognizing interest based on the time interest of the loan** | **AAOIFI does not consider it interest but rather income that is compatible with Sharia.** |
| **Payment installments** | **Part pays the principal, and part represents revenue** | **Interest portion + principal portion** | **The investment component is separated from the operational component.** |
| **Transfer of ownership** | **At the end of the contract, the asset is transferred to the lessee according to the terms of the contract, and any difference is recorded as profit or loss.** | **The loan is fully repaid and closed.** | **AAOIFI focuses on Shariah disclosure and compliance.** |
| **Contract-related expenses** | **Maintenance and insurance are usually borne by the lessor and recorded as an expense on an accrual basis.** | **Expenses are usually included in the financing costs or borne by the beneficiary.** | **Clarify the required expenses to ensure transparency.** |
| **Financial disclosure** | **Mandatory disclosure of contract duration, installments, terms of transfer of ownership, and compliance with Sharia law.** | **There is no specific disclosure of Sharia compliance.** | **AAOIFI places great importance on disclosure to ensure investor confidence.** |

The following diagram illustrates the relationship between the leasing standard, transparency, and accounting disclosure.




**1- Accounting Treatments for Islamic Accounting Standard No. (8) Lease-to-Own**

To highlight the accounting treatments, the most important entries related to recognition and recording of the commencement of a lease contract have been prepared (for operating leases and lease-to-own of all types, except for lease-to-own under the gradual transfer method), as follows:

**A- When purchasing an asset for leasing purposes:**

After obtaining approval from the general management, the asset is purchased. The following entry is then recorded: the purchase price plus any expenses that the financial institution may incur according to the agreement between the contracting parties. The accounting entry is then recorded.

| Particular | D A/C | C A/C |
|---|---|---|
| From Assets Acquired for Lease A/C<br>TO Payment Method (Cash) A/C | xxxx | <br>Xxxx |

Upon receipt of the advance payment, the financial institution records the following entry for the amount received, which represents a reduction in the cost of the leased asset:

| Particular | D A/C | C A/C |
|---|---|---|
| From Receipt Method (Cash) A/C<br>TO Assets Acquired for Lease A/C | xxxx | <br>Xxxx |

- Upon delivery of the asset,

the accounting department closes the account for assets acquired for lease and opens a deferred investment income account (lease) that records the total profits expected to be received during the lease term, which is amortized periodically. It also opens a lease-to-own asset account that records the net payments due from the lessee, as shown in the following entry:

| Particular | D A/C | C A/C |
|---|---|---|
| From Lease-to-own asset A/C<br>TO Deferred investment profits – Lease A/C<br>TO Assets Acquired for Lease A/C | xxxx | <br>Xxxx<br>xxxx |

- Upon receipt of the rent payment, the accounting department records the entry.

| Particular | D A/C | C A/C |
|---|---|---|
| From Receipt Method (Cash) A/C<br>TO investment profits – Lease A/C | xxxx | <br>Xxxx |

- When the rent payment is due and delayed, the accounting department of the financial institution records the following entry.

| Particular | D A/C | C A/C |
|---|---|---|
| From Outstanding rent not ReceiptA/C<br>TO Deferred investment profits – Lease A/C | xxxx | <br>Xxxx |

**2- Accounting Treatments for Islamic Accounting Standard No. (32) Ijarah (Lease)**

To highlight the accounting treatments, the most important entries related to recognition and recording of the commencement of a lease contract have been prepared (for operating leases and leases ending with ownership of all types, except for leases ending with ownership according to the gradual transfer method), as - When purchasing an asset for leasing purposes:

After obtaining approval from the General Administration for the lessee's request, the request is entered into the facilities system, taking into account the nature of the asset's use (whether for maintenance or investment). Following approval from the General Administration, the asset is purchased, and the following entry is recorded: the purchase price plus any expenses that the financial institution may incur as per the agreement between the contracting parties. The accounting entry is then recorded. follows:

| Particular | D A/C | C A/C |
|---|---|---|
| From Assets Acquired for Lease A/C<br>To Payment Method (Cash) A/C | xxxx | <br>Xxxx |

Note: Assets are measured at historical cost when acquired.

**-Upon signing the lease agreement, and upon delivery of the asset,**

the accounting department closes the account for assets acquired for lease and opens a deferred investment profits account, which records the total profits expected to be collected during the lease period and is amortized periodically. It also opens a leased assets account, which records the net remaining payments owed by the lessee, as shown in the following entry:

| Particular | D A/C | C A/C |
|---|---|---|
| From Leased Assets (value of leased asset and revenue) A/C<br>**TO Deferred Lease Revenue (investment from bank funds) A/C**<br>OR<br>FROM Deferred Investment Profits (investment from investment funds) A/C<br>TO Assets Acquired for Lease A/C | xxxx | <br>Xxxx |

Underway to sign the lease agreement

| Particular | D A/C | C A/C |
|---|---|---|

| | | |
|---|---|---|
| From Leased Assets (value of leased asset and revenue) A/C<br>TO Assets Acquired for Lease A/C | xxxx | Xxxx |

- If the payment is made in advance before the start of the lease agreement, the entry will be

| Particular | D A/C | C A/C |
|---|---|---|
| From Prepaid Lease Installments A/C<br><br>TO Payment Method (Cash) A/C | xxxx | Xxxx |

- In the case of payment upon signing the lease agreement, where all payments are transferred before the start of the contract, the entry is

| Particular | D A/C | C A/C |
|---|---|---|
| From the Right of Use account A/C<br><br>To the Prepaid Lease Installments Account A/C | xxxx | Xxxx |

- In the case of recording direct initial costs, the entry would be

| Particular | D A/C | C A/C |
|---|---|---|
| From the Right of Use account A/C<br><br>TO Payment Method (Cash) A/C | xxxx | Xxxx |

- In the event of receiving a payment from the landlord as an incentive, the entry will be

| Particular | D A/C | C A/C |
|---|---|---|
| From Receipt Method (Cash) A/C<br><br>To the Right of Use account A/C | xxxx | Xxxx |

- In the case of recording the initial cost of using the asset and the corresponding liability, the journal entry would be

| Particular | D A/C | C A/C |
|---|---|---|
| From the Right of Use account A/C<br>To Lease contract obligation A/C | xxxx | Xxxx |

As for the accounting treatment at the end of the first year, the following entries are prepared:
- At the end of the first year, the entry for the first payment of the lease agreement is made.

| Particular | D A/C | C A/C |
|---|---|---|
| From the Right of Use account A/C<br>To Payment Method (cash) A/C | xxxx | Xxxx |

- At the end of the year it is subject to amortization

| Particular | D A/C | C A/C |
|---|---|---|
| From Amortization Expense right of use A/C<br><br>TO Amortization Provision Expense right of use A/C | xxxx | Xxxx |

If the lease term exceeds one year, the same entries are repeated at the end of each year. At the end of the final year, the lease liability account is closed due to gradual amortization. However, the standard does not address how to close both the asset's right-of-use account and its accumulated amortization account, which are assumed to have equal balances. It is assumed that upon termination of the lease and return of the asset to the lessor (owner), the following entry should be prepared.

| Particular | D A/C | C A/C |
|---|---|---|
| Amortization Provision Expense right of use A/CFrom<br>TO the Right of Use account A/C | xxxx | Xxxx |

Regarding the accounting treatment of Islamic Financial Accounting Standard No. (32) Ijarah (according to the gradual transfer method), the entries are as follows:

- At the beginning of the contract, the right to use the asset and the obligation of the Ijarah contract are recognized as follows:

| Particular | D A/C | C A/C |
|---|---|---|
| From the Right of Use account A/C<br>Lease contract obligation A/C To | xxxx | Xxxx |

- At the end of the first year, the following journal entries are prepared:

Entry for payment of the first installment of the lease agreement

| Particular | D A/C | C A/C |
|---|---|---|
| From Lease contract obligation A/C<br>To Payment Method (cash) A/C | xxxx | Xxxx |

Restricting the right of use

| Particular | D A/C | C A/C |
|---|---|---|
| From Amortization Expense the Right of Use account A/C<br>TO Amortization Provision the Right of Use account A/C | xxxx | Xxxx |

Payment of the first installment of the sale share is pending.

| Particular | D A/C | C A/C |
|---|---|---|
| From Asset A/C<br>TO Payment Method (cash) A/C | xxxx | Xxxx |

The restriction on closing the amortization provision is for the right to use the existing asset, and this restriction serves to prove the sale transaction.

| Particular | D A/C | C A/C |
|---|---|---|
| From amortization of the right to use the asset A/C<br>To the right to use the asset A/C | xxxx | Xxxx |

In addition to these restrictions, a constraint is added to record the depreciation of the asset according to the share of the asset owned, according to the constraint:

| Particular | D A/C | C A/C |
|---|---|---|
| From Depreciation Expense the asset A/C<br>TO Allowance for Depreciation the asset A/C | xxxx | Xxxx |

- If the contract continues for more than one year, the same restrictions are repeated at the end of each year.

**Practical Results**

1- Weak Application of Standards in the Iraqi Environment: It was found that many Iraqi Islamic banks do not fully apply Standards (8) and (32). The Unified Accounting System No. (10) is still inadequate to accommodate the specific characteristics of Islamic financing structures, leading to weaknesses in accounting measurement and the accuracy of financial disclosure.

2- The Need for a Unified Accounting Model: The results showed that the varying application of leasing standards among Islamic banks leads to inconsistencies in measurement, presentation, and disclosure. This necessitates the adoption of a unified accounting model—as proposed by the research—that ensures consistency between Sharia principles and the requirements of international standards, and improves the quality of accounting information.

3- Achieving a Positive Impact on Transparency and Financial Disclosure: The practical results demonstrated that detailed disclosure of lease-to-own contracts—including the terms of ownership transfer, installments, and contract-related costs—increases the level of transparency and reliability in financial statements and enhances investor and depositor confidence in Islamic banks.

4- Improving reliability and comparability: Applying the two standards according to the proposed model contributes to improving the reliability, verifiability, and comparability of financial data between Islamic institutions locally and internationally, thus enhancing the position of Islamic banks in the global financial environment

**CONCULISON**

The research findings confirm that the application of Islamic Accounting Standards No. (8) and No. (32) constitutes a pivotal step towards developing the financial reporting environment in Islamic banks. Adopting these standards clearly contributes to raising the level of transparency, fairness, and credibility in the presentation of financial information, thereby enhancing the confidence of financial statement users, including investors, creditors, and regulatory bodies. This is evident in the clear treatment of lease-to-own contracts in both the lessor's and lessee's books, within a unified framework that reflects the economic essence of financial transactions, not merely their legal form.

Theoretically, Standards (8) and (32) stand out as scientific tools for aligning Islamic accounting concepts with international standards, particularly International Financial Reporting Standards (IFRS), without compromising the provisions of Islamic Sharia. They contribute to striking a balance between modern transparency requirements in financial reporting and preserving the Sharia-compliant nature of transactions. Standard (32) also developed the conceptual framework of Standard (8) by adding the concept of the right to use the assetand expanding measurement and disclosure requirements to include assets and liabilities arising from lease contracts. This enhances comparability and consistency among Islamic financial institutions in different countries.

From a practical standpoint, the research demonstrated that standardizing the treatment of lease-to-own contracts through the proposed accounting model leads to improved financial statement quality by enhancing relevance and verifiability in measurement and presentation. This model also provides a practical framework for Islamic bank accountants to apply lease standards accurately and consistently, reducing discrepancies in accounting treatments among different banks and increasing the reliability of financial informationupon which regulatory bodies, the central bank, and investors rely in making their decisions.

The research findings also highlight the importance of aligning national accounting systems—particularly the unified accounting system implemented in Iraq—with the requirements of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards. This alignment is crucial to ensure that the financial reports of Iraqi Islamic banks are consistent with international accounting practices on the one hand, and with the principles of Islamic Sharia on the other.

The research also recommends intensifying professional training and development programs for accountants and employees in Islamic banks. These programs aim to enable them to understand and apply the requirements of AAOIFI standards practically, with a focus on practical training in the areas of measurement and disclosure for lease and lease-to-own contracts. Such programs will enhance professional performance, reduce application errors, and ensure the sustainability of financial reporting quality.

In conclusion, the application of standards (8) and (32) is a fundamental pillar in establishing an integrated accounting framework that aligns with the philosophy of Islamic finance, which is based on equity and risk-sharing. Simultaneously, it supports the governance, transparency, and full disclosure requirements of the modern banking environment.

**Resources**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