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## The Extent of the Application of the Murabaha Financing Standard of the AAOIFI Standards in Islamic Banks: A Case of the Iraqi Islamic Bank

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### ABSTRACT

This research aims to present the Murabaha standard and the accounting treatments for it as stated in the standards of the AAOIFI Authority, which is an international body, and one of its most important activities is the compliance of standards for Islamic banking work. These standards have become respected, trusted and committed by most Islamic banks around the world. As well as the presentation of the actual application of Murabaha as applied by the Islamic Bank of Iraq, which is the largest and oldest Islamic bank in Iraq.

The researchers used the inductive approach to present the research problem with the previous studies that researched the subject to review the criterion for Murabaha products. The researchers also used the descriptive analytical approach to the practical aspect, which included the presentation and analysis of practical applications of Murabaha as applied by the Iraqi Islamic Bank.

The researchers found that the Islamic Bank of Iraq relied on the Murabaha formula more than the Musharaka formula. No other funding formulas were received such as Istisna'a, Salam, Islamic instruments and others in the final accounts of the bank, which indicates that these formulas are not dealt with in the bank. It's because of the bank's lack of commitment to the vocabulary of the Murabaha standard issued by the AAOIFI, and the insufficiency of accounting for disclosure in the bank's final statements. As well as avoiding the risks of non-compliance, the need for an Islamic bank to invest its money and customer deposits in the form of Murabaha for the purchase order to increase its returns and profits for its customers. The necessity of conducting future research that would examine the reasons for the bank'

**Keywords:**

AAOIFI; Murabaha; Murabaha for the Purchase Order; Iraqi Islamic Banks; Margin Al-Jidiyah

## Introduction

Before Islam, the Arabs knew different types of sales, contracts, and alliances, and when Islam came, it abolished every formulation that was not consistent with the true religion and established what is consistent with amending some of the necessary rules and obligations, and among the formulas adopted by Islam are: Murabaha, Musharaka, Salam sale, cultivation, and Istisna'a and other investment formulas.<sup>4</sup>

Murabaha sales to the orderer to buy is considered one of the main investment and financing formulas applied by Islamic banks, and sometimes it is considered the only formula in some of them, and this represents the source of legal and financial danger, especially if its application is marred by errors due to non-compliance with the provisions and principles of Islamic law and the fatwas and decisions of the jurisprudence councils. Perhaps the accounting standards brought by the Accounting and Auditing Organization for Islamic Banks and Financial Institutions to address this type of contract are among the most important reasons for reducing legal and financial risk.<sup>5</sup>

Murabaha financing in its various forms is considered one of the most practised Islamic financing tools in Islamic banks in various countries of the world, and in Iraq as well. This research included a presentation and discussion of the Murabaha standard issued by "AAOIFI", which is the global body that takes care of Islamic banking affairs, and issues standards for that. Raha is a station of interest (reach an end compulsion) in most countries of the world. Post a review of The Murabaha standard<sup>6</sup> The practical

<sup>4</sup>Shaheen, Ali, Approach to developing financing operations and their accounting applications in Islamic banks. *General Authority Islamic marketing*, Jordan 2012, p92.

<sup>5</sup>Ali Qara Daghi, Research in the jurisprudence of financial transactions *contemporary, first edition*, Dar Al-Bashaer Al-Islamiyyah, Beirut, Lebanon, 2001, p. 101.

<sup>6</sup>Al-Bashir, Muhammad Ismail Al-Sheikh, Accounting Disclosure of the Risks of Islamic Finance Formulas in Light of Islamic Accounting Standards, An Applied Analytical Study on Murabaha and Salam Formulas, Master's Thesis in Accounting, College of Commerce, University of Kordofan, Sudan, 2015, p. 43.

application followed by the Iraqi Islamic Bank (which is the pioneer of Islamic banking in Iraq) was presented, and after analyzing the practical side, the two researchers reached some conclusions and recommendations, which are proven at the end of the research.

## Research problem

The problem of the study can be expressed as follows: What is it? Measures set by the AAOIFI regarding Murabaha? And do you commit? Sinks Iraqi Islamic Measures?

To answer this question, Murabaha should be clarified first, then the AAOIFI organization and its standards should be known, and then an introduction to Iraqi Islamic banks and the practical practices of Murabaha.

## Research Importance

The importance of the study lies in the current trends towards Islamic finance and the emergence of the role of Islamic banks in addressing the financing problem of economic institutions all over the world. Finally, the research is important as it is the first research (as far as the researchers are aware) that examines this issue in Iraq.

## Research aims

The research aims to achieve the following goals:

- 1) A closer look at the accounting body and review For Islamic Financial Institutions (AAOIFI), presenting standards out going about it, with a focus on Murabaha standard.
- 2) Examining the extent to which Iraqi Islamic banks adhere to the Murabaha standard issued by AAOIFI.

## Research hypotheses

For achieving the research objective, the researcher assumes the following:

- 1) AAOIFI is a non-profit organization that professionally issues standards for Islamic financial institutions.
- 2) Murabaha contract is a commitment between an Islamic and the order to buy.
- 3) There is a special accounting treatment for the Murabaha contract.
- 4) Commits sinks Iraqi Islamic in the previous paragraph according to the standards of the Ayufi.

## Research Methodology

The researchers used the inductive approach in presenting the research problem and the previous studies that talked about the subject and reviewing the criterion for Murabaha.

### Previous studies

#### 1- A study (Ali Sidi, 2006) entitled: **Murabaha Sale to the Buyer between the Jurisprudential Formula and the Banking Application.**

The researcher touched on the Murabaha sale according to the jurists and explained opinions which were published about Murabaha sale to order. By purchasing from those who are permitted and those who are not permitted, they give evidence of the permissibility of Murabaha to command. By buying from the texts of the book and the Sunnah, then it is a legal contract, while those who prevent say that it is from the sale of the sample, the most correct opinion is the saying of those who are permitted, then the researcher showed the practical application of Murabaha in the Jordan Islamic Bank, and the researcher concluded that in the event of not specifying the profit in the trade allows the bank to take a profit margin. It is better for the Muslim than choosing usurious banks are urged in his research on Murabaha applications in the Jordan Islamic Bank.

#### 2- A study (Al-Kabbashi, 2008) entitled: **Murabaha and instalment sales and their role in banking transactions in Islamic jurisprudence**

The researcher clarified the concept of the Murabaha sale, dealt with the instalment sale and its provisions, and in the Murabaha rule for the purchase orderer there are sayings in terms of obligating the promise and fulfilling it, the first saying that the promise is binding and sued for the promisor and he is obliged to implement it, the second is that the promisor is not obligated to fulfil his promise and is not sued for it, but it is desirable for him to fulfil his promise, and the last one is that they did not say that the promise is necessary and that it is not necessary and that it is necessary, and then the author mentions that the jurists permitted Murabaha for the one who ordered the

purchase, but not required find the promise and make it clear that Sudan. There is no in it, he worked on the promise, then the author dealt with a study in Sudan regarding the sale of Murabaha and reviewed some fatwas from the Sharia Banking Authority in Sudan. This research is restricted to the Sudanese application, but the researcher will address the application on banks in Turkey.

#### 3- Study (Diya, 2019) entitled: **The suspicions Responses to the Murabaha sale to the orderer to buy as it is conducted by the Islamic bank**

The writer touched on the suspicions that came within the Murabaha formula for the purchase order. The research dealt with five demands, each requirement touches on a suspicion of the Murabaha suspicions for the purchase orderer, and the request was concluded. The answer to the suspicions, and the suspicions are (two sales in one sale), (the sale of the sample) and (the sale of what he does not own) and the increase in the value of the commodities represent usury. Within the realistic criticisms, the researcher limited himself to addressing the suspicion and answering it.

#### 4- A study (Ismail Chebji, 2010) entitled: **Murabaha in the modern Islamic economy**

The researcher touched on the emergence of Islamic banks and the development of Murabaha in Islamic banks, then presented the sale of Murabaha and its concept and comparison with contemporary Murabaha. As for Murabaha for the purchase order, it includes three parties, the commodity is not available, the bank buys it after the customer's permission, this contract is based on the promise and consists of two contracts and not one contract, the bank does not know the value of the commodity until after the procedures are completed, usually, this sale is deferred and by instalments. The researcher concluded that Islamic banks fail with real procedures and are similar in their work to usurious banks, and the reason for the problems in Turkey is due to the different laws and methods of dealing with them. Bank applications.

**5- A study (Al-Jumaili, and Al-Halbousi, 2018) entitled Financing Islamic Banks in Iraq (Between Theory and Practice) An analytical study on a sample of Iraqi Islamic banks**

The study aimed to shed light on the most prominent sources of financing in Iraqi Islamic banks in general and to identify the most common financing formulas in terms of dealing, as well as indicators of growth in these banks. The research sample included a group of Iraqi Islamic banks, which have branches in various Iraqi governorates. The research adopted the analytical method of activity indicators for each of the financing formulas in force in Iraq and reached a set of conclusions, the most prominent of which is that it does not deal with Islamic financing formulas are mostly limited to two formulas, and sometimes three formulas. As for the rest of the financing formulas, such as leasing financing, peace, tawarruq, and good loans, Islamic banks in Iraq do not deal with them, which leads to limited investment formulas in these banks, and thus a lack of returns. The research reached a set of recommendations, including, the need for the Iraqi legislator to pay attention to Islamic banks and develop a special economic and legal policy for them, and all this is done through either amending the Iraqi Banking Law No. 94 of 2004 by adding a special section for Islamic banks or issuing independent legislation for these institutions and Islamic banks, including It serves the development of its work.

**6- A study (Muhammad, 2021) entitled The Extent of Iraqi Islamic Banks' Commitment to Apply Islamic Financial Accounting Standards**

The research aims to identify the accounting standards for Islamic banks, analyze the most important problems in the application of Islamic accounting standards, as well as to analyze some of the principles and methods used in the application of accounting standards in Islamic banks. Islamic accounting in light of the financial data to compare the use of accounting standards for the years 2018 and 2019, for the Islamic banks that were selected as a sample for the research, which were

(Kurdistan International Islamic Bank), (Iraqi Islamic Bank) and (The National Islamic Bank), and the research reached a set of results The most important of which was that the accounting approach followed in the Islamic banks, the research sample, relied on the traditional method, which was marred by many contradictions in the presentation and disclosure of the financial statements, and it does not readyumWith everything in it with the Islamic approach and its specificity based on what is permissible and forbidden, and the view of Islamic law on ownership and on money and ways of earning it, and also there is a discrepancy in the extent of banks' commitment to credit policies, and that the National Islamic Bank did not disclose 4 out of 6 items that should be disclosed and presented according to the standard International No. (9FIRS) financial instruments and the researchers recommended the need for Iraqi Islamic banks to adhere to Islamic accounting standards, and to enhance the principle of transparency in presenting financial statements by those standards to win the confidence of investors and customers and improve their financial situation.

**Comment on previous studies f feature of this study**

By reviewing previous studies, the researcher has benefited from them, and Gabeswhat its research from it, and we note that each study discussed Murabaha in general, and the Murabaha of the purchase order in particular, each research took a specific aspect of it, and most of them focused on the jurisprudential aspects of it, while the two Iraqi studies are looking that in the same Iraqi environment (Islamic banks), but they are looking for points away from Murabaha.

The advantage of this study is that it examines Murabaha according to its latest international Islamic standard, which is the standardoutgoingFrom the standards of "AAOIFI", and also discusses the practical application of them in Iraqi Islamic banks (represented in the oldest and largest Islamic

bank in Iraq) This study compares the practical application and the international standard to determine the extent to which reality is close or far from theory.

### Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Foundation<sup>7</sup>:

The Accounting and Auditing Organization for Islamic Financial Institutions was established, previously called: (The Financial Accounting Organization for Islamic Banks and Financial Institutions) within the founding agreement signed by Islamic financial institutions on 1/Safar/1141, corresponding to 26/2/1990 in Algeria, then the Authority was registered on 11/ Ramadan / 1411, corresponding to 3/27/1991 AD in Bahrain, as it is a global body with an independent, non-profit, legal personality Since its inception in 1991.

The organizational structure of the Authority consists of Supervisory Committees, including 17 members, and a Standards Council Accounting Finance It consists of 21 members and the executive committees that are appointed from among the members of the Financial Accounting Standards Board. The Sharia committees are composed of 4 scholars. Then the Supervisory Committee decided to form a committee for evaluation, which resulted in a set of amendments in the statute and organizational structure of the Authority, where the name of the Authority was changed to become: (Accounting and Auditing Organization for Islamic Financial Institutions). The organizational structure was amended to become: the general assembly, a board of trustees instead of the supervisory committee, and the Accounting and Auditing Standards Board, The Executive Committee, Sharia Committees and the General Secretariat headed by the Secretary-General were limited to accounting alone. The statute was also amended to amend the method of financing the Authority from contributions paid by the shareholder members (Islamic Development Bank, Dar Al-Mal Al-Islami Group, Al-Rajhi Banking Investments Company, Dallah Al-

Baraka Group, Finance House Al-Kuwaiti) to establish "endowment and charity" money in which the member institutions of the Authority contribute by paying a membership fee only once.

The membership system was amended to consist of founding members, non-founding members, and observer members.

**Objectives<sup>8</sup>:** In 1998, amendments were made to the Statute of the Commission. These amendments included expanding the goals of the Commission. Article Four of the Statute stipulated basic the average, on me The goals of the body are within the framework of the provisions of Islamic Law Islamic:

- initialization and version of Accounting and auditing standards for Islamic financial institutions And explain it; for compatibility between Business accounting that works out Islamic financial institutions' initialization Financial Statements, And also Convenience between steps review used in auditing the financial statement stomach from Islamic financial institutions.

- Developing the thinking of accounting, auditing and disciplines banking Same Relationship actively enterprises Finance Islamic.

- Dissemination of accounting and auditing ideas related to the activity of institutions financing Islam and its applications through training, a periodical, and preparing research and reports.

- Preparing, issuing, checking and amending data and directives related to the activity of Islamic financial institutions related to the practices of the bank, investment and insurance.

Auditing and amending accounting and auditing standards for Islamic financial institutions to continue developing their activities in Islamic financial institutions.

- Granting a license and a professional document in the specializations of the standard of accounting, auditing, financial analysis and Islamic banking for individuals and institutions, in addition to a certificate of auditing and sharia supervision, as the Authority works in

<sup>7</sup> [www.aoifi.com](http://www.aoifi.com) website

<sup>8</sup> [www.aoifi.com](http://www.aoifi.com) website (Previous reference)

agreement with other agencies that it appoints to practice training, preparation and grants.

- Establishing a Sharia Council instead of the Sharia Committee, to name the non-founding members "participating members": expanding the body to its membership to include supporting members who consist of all financial institutions in which it considers an interest to share with Islamic financial institutions and its services with the Accounting and Auditing Organization for Islamic Financial Institutions.

#### **Financial accounting standards issued by AAOIFI<sup>9</sup>:**

The organization issued - on different dates - MCalibratemy accountants THE singled out the Islamic banking business, which is:

- 1- Public presentation and disclosure of the financial statements of Islamic banks and financial institutions.
- 2- Murabaha and Murabaha for the purchase order.
- 3- Mudaraba financing.
- 4- Participation financing.
- 5- The ladder and the parallel ladder.
- 6- Lease and lease ending with ownership.
- 7- Zakat.
- 8- Istisna' and Istisna'parallel.
- 9- Allocations and reserves.
- 10- Public presentation and disclosure in the financial statements of Islamic insurance companies.
- 11- Disclosure of the basis for determining and distributing the surplus or deficit in Islamic insurance companies.
- 12- Investment Funds.
- 13- Allocations and reserves in Islamic insurance companies.
- 14- Transactions in foreign currencies.
- 15- Islamic financial services provided by conventional financial institutions.
- 16 Subscriptions in Islamic insurance companies.
- 17- Forward sale.
- 18- Disclosure of the transfer of assets.
- 19- Report on sectors.

<sup>9</sup>Standards of Accounting, Auditing, Governance and Ethics, Authority *Accounting and review for institutions Finance Islamic* Dar Al-Maiman for Publishing and Distribution, Riyadh, Saudi Arabia, 2015, p5–6.

20- Consolidation of the financial statements.

21- Investing in entitiescausative(associates).

22- Investing in sukuk, stocks and instruments similar.

23- Investing in real estate.

24- Investment accounts.

25- Endowment.

26- Julia.

27- The loan.

#### **Meaning of sale (in general)**

The term sale denotes several meanings, including:

- According to the Shafi'is: "the exchange of money for money is possession and ownership."<sup>10</sup>
- According to the Malikis: "a contract of exchange for non-benefits and no pleasure for pleasure"<sup>11</sup>.
- In Sharia: It is the exchange of money for money in a specific way.<sup>12</sup>

From the foregoing, the researcher canthatFormulation of the following definition: It is the exchange of the desired thing in exchange for possession and possession with mutual consent.

#### **Types of sales<sup>13</sup>**

**A - barter sale:** It is the sale of goods for goods or the exchange of cash for cash without the price, and the sale of one commodity for another commodity, for example selling one kilogram of barley for five kilograms of sugar.

**B - Selling exchange:** It is a cash sale with anotherWithout his gender, it is like selling a pound for 2 dollars, provided that the delivery takes place in the contract council.

**C - Sale of Salam:** It is the sale of debt in kind, such as selling a ton of wheat and receiving its

<sup>10</sup>Al-Nawawi, Muhyiddin Abi Zakariya Yahya bin Sharaf, *Rawdat al-Taliban and Hamada al-Mufti*, Islamic Office, Qatar, ed.31991, Part 3, p. 3.

<sup>11</sup>Al-Risa'a, Abu Abdullah Muhammad Al-Ansari, *Explanation of the Borders of Ibn Arafah*, investigated by Muhammad Abu Al-Ajfan, and Tar Al-Mamouri, Dar Al-Gharb Al-Islami, Beirut, 1st edition, 1993, p. 326.

<sup>12</sup>The gift of Al-ZahilY, Islamic jurisprudence and its evidence. Edition 3: Part 4, Dar Al-Fikr, Damascus, Syria, 1984: p. 344.

<sup>13</sup>Mahmoud Al-Wadi and Hussein Samhan, *Islamic Banks, Theoretical Foundations and Scientific Applications*, 2nd Edition, Dar Al-Masirah, Amman, Jordan, 2008: p.126.

price immediately, with delaying delivery to a specific time in the future.

**D - outright sale:** It is a complete cash sale of the property, and a sale sooner or later for the commodity, and it is divided into two types:

**D-1- Bargain Sale:** It is the sale of goods at a specific price agreed upon by the seller and the buyer after deliberations (bargaining) without referring to the first price (the cost of the goods).

**D-2- Trust sales:** It is a sale in which the capital of the goods (the cost) is mentioned, and thus the buyer and seller know the price of the profit that the owner of the goods (the seller) has received.

### **Murabaha sale meaning**

**in language:** Murabaha is a formula of "interaction" taken from the profit, meaning the increase, and the profit is the prosperity of the trade.<sup>14</sup>

**In terms:** Murabaha is defined by the jurists as:

- **Al-Malikiyah:** Sell what you buy at its price with addition he won specific at the seller and buyer according to the agreement.<sup>15</sup>

- **the tap:** The sale will be the same as the first price and an increase in profit.<sup>16</sup>

- **Shafi'i:** It is a contract in which the price is based on the increase of the price of the first sale.<sup>17</sup>

- **Hanbali:** It is to tell him his capital, then sell it and profit.<sup>18</sup>

And Wahba al-Zuhaili defined it: as selling at the same price with an increase in profit<sup>19</sup>

Murabaha sale is known economically as: "Selling at the price at which it was purchased

<sup>14</sup> Al-Razi, Muhammad bin Abi Bakr bin Abdul Qadir, Mukhtar Al-Sahah, investigation: Mahmoud Khater, Beirut, Lebanon Library, 1995, p. 115.

<sup>15</sup> Ahmed Salem Abdullah Melhem, Murabaha Sale and its Applications in Islamic Banks, Modern Message Bookshop: 1st edition, Amman, 1989, p. 28.

<sup>16</sup> Al-Kasani, Alaa al-Din Abu Bakr bin Masoud al-Hanafi, Bada'i al-Sana'i fi Tarib al-Shari'i, investigation: Muhammad Khair Taha al-Halabi, Beirut, Dar al-Maa Arifa al-Sahafah, first edition, 2000, p. 223.

<sup>17</sup> Nawawi, Muhyiddin Abi Zakariya Yahya bin Sharaf, 1991, Part 3, p. 526, previous reference.

<sup>18</sup> Abdullah bin Ahmed bin Qudamah Al-Maqdisi, Al-Mughni, Part 5, Riyadh Modern Library, Riyadh, 1988, p. 199.

<sup>19</sup> The gift of Al-Zahilj, Islamic jurisprudence and its evidence, previous reference, p. 703.

or its cost to the purchaser, with an increase in a known profit, which is in most cases A percentage of the purchase price or cost.<sup>20</sup>

It is also defined as "selling at the same price as the first price at which the commodity was in the hands of its owner (the seller), and an increase in a known and agreed-upon profit."<sup>21</sup> Accordingly, Murabaha is a type of sale in which the sale price exceeds the original purchase price of the seller. The goal is to achieve a profit margin, and the sale of Murabaha depends on the honesty of the seller in disclosing the original price (the purchase price of the commodity).

**Categories (types) of Murabaha:** Murabaha sale is divided into:<sup>22</sup>

**A - Simple Murabaha** It means that the owner of the commodity sells a commodity that he owns at its initial value and an increase, and this sale is practised by all merchants Usually, they buy the goods, and then whoever wants to buy them, they sell them to him at a profit, and the sale is either bargaining or trust, and for the price, it is either current, instalments, or deferred.

**B - Compound Murabaha (Murabaha for the purchase orderer):** It is one of the sales of trust when someone asks to buy a commodity from another person and promises to buy it from him with a specific profit.

**Conditions for the validity of a Murabaha sale:**

**A - Contractors' satisfaction:** It is not valid to sell compulsion unjustly; For God, Almighty says:(O you who have believed, do not consume your wealth among yourselves unjustly unless it is traded by mutual consent of yourselves) Surah Al-Nisa: 229. And the thing sold must be owned by the seller and in

<sup>20</sup> Muhammad Kama Attia, Accounting Systems in Islam, Mansha'at al-Maarif in Alexandria, vol. 2: 2, 1989, p. 352.

<sup>21</sup> Ahmed Mohammed Al-Jalf, Accounting Approach to Murabaha Operations in Islamic Banks, International Institute of Islamic Thought, 1st edition, Cairo, 1996: p.22.

<sup>22</sup> Mahmoud Valley And the Hussein Samhan, Islamic Banks, Theoretical Foundations and Practical Applications, Dar Al-Maysarah for Publishing and Distribution, Amman, 1st Edition, 2007, pp. 127-128.



his possession and he has the right of guardianship over it; Because the Prophet, may God's prayers and peace be upon him, said: "Do not sell what you do not have." Narrated by Ahmad, Al-Bayhaqi, and Al-Tabarani, and its meaning is in the two Sahihs.<sup>23</sup>

**b - That the first contract be valid<sup>24</sup>:** Using this first sale, the ownership of the sold item is transferred to the buyer - the second seller - and then in turn he sells this sale to the second buyer in Murabaha. If the first contract is invalid, the second contract is invalid; because it is a Murabaha sale; What is built on falsehood is invalid, so for the validity of the Murabaha contract, the first contract must be valid, and the statement of this is that the sale by Murabaha is based in its form on the first sale; Like saying the first seller or buyer I sold you for the first price and an increase in the amount of profit.

**C - Knowledge of the first price:** Knowledge of the first price is required because knowledge of it is a condition for the validity of all sales. The price of the Murabaha will be the first price plus an estimate of the profit, so the first price must be mentioned in the Murabaha contract.<sup>25</sup>

**d- That the first price is equal:** The reason for the correctness of this picture is that the price, even if it is quantitative (ideal), but there is no benefit in knowing its true amount because it is the first price by being part of the Murabaha price. Ignorance of its true value does not lead to a difference between the seller and the buyer. But provided that the conditional profit is known as (10) Dirhams, for example, but if it was a percentage of the first price, the issue is not valid due to the necessity of the value evaluation at that time to reach a knowledge of the profit.<sup>26</sup>

<sup>23</sup>Mahmoud Al-Ansari and others, Islamic Banks, Al-Ahram Press, Cairo, 1st Edition, Part 8, 1988, p. 59.

<sup>24</sup> Ali Kazem Al-Rifai, Etidal Abdel-Baqi Youssef, What is the Banking Murabaha Sale, Journal of Economic Sciences, Issue 23, Volume 6, University of Basra, Iraq, 2009, p. 17.

<sup>25</sup> Hammoud, Sami Hassan, Developing banking business following Islamic law, 2nd edition, Al-Mashreq Press, Amman, 1982, p. 463.

<sup>26</sup> Mufeed Al-Rahman, A Sharia View on Murabaha and its Banking Formulation, International Islamic University Studies, Chittagong, Bangladesh, Volume IV, 2007, p. 173.

e - That the profit is known: knowledge of the profit is necessary; because it is some price; Knowledge of the price is a condition for the validity of sales, and it is a condition agreed upon by all jurists. If the price was unknown at the time of the contract, Murabaha is not permissible.<sup>27</sup>

### **Murabaha sale to the one who ordered the purchase**

#### **Definition of Murabaha sale to the purchase orderer:**

And she's doingbankExecuting the request of the contracting party with him based on the purchase of the first what the second asks for with the cash that he pays banking whole or in part, in return for the student's commitment to buy what he ordered, and according to the profit agreed upon at the start. Murabaha sale in this case is to sell the commodity that you own bank with the money on which it was built, to which an amount of profit of such and such was added, with the agreement of the two parties. Therefore, the amount of profit, the price of the commodity, and what was added to the price must be indicated.<sup>28</sup>

Scholars defined it with several definitions, including<sup>29</sup> :

- Sami Hammoud defined it by saying: The customer submits a request to the bank to purchase a commodity with specifications specified by him according to a promise from him to the bank to buy the item at the interest rates agreed upon between them, and the payment is in the form of instalments.

- Yunus Al-Masri defined it by saying: The customer desires to purchase a specific commodity, as he applies to the bank because he is not worth to be paid in cash and the seller does not have to give it for the sake of not working in sales deferred, because he does not knowThe buyer or he needs cash, so the bank

<sup>27</sup>Muhammad Salah Al-Sawy, The Problem of Investing in Islamic Banks, Dar Al-Wafaa, Egypt, 1990, p. 206.

<sup>28</sup>Banking financial highlights, publishingeAwarenesseIssued by the Institute of Banking Studies, Issue 3, Kuwait, 2010, p. 2.

<sup>29</sup>Osama MohammedMohammedAl-Sallabi, Murabaha Sale to the Buyer, research submitted by the Faculty of Arts, Department of Islamic Studies, Qar Yunis University. Libya p5.



buys it in cash and then sells it to the customer for a deferred amount at a higher value.

- Muhammad Silyan Al-Ashqar defined it: It is an agreement between the bank and the customer to purchase goods from the bank, whereby the customer is obligated to buy them from the bank, and the bank works to sell them to the customer at a price that determines the percentages the increase them over their previous purchase price.

- It is an order or request from one party to another to buy a specific commodity for him with the promise of the commander that this commodity will be bought from the commander after he takes possession of it with a specific profit: and it is called whoever wants Item By ordering the purchase: As for the other party (bankThe Islamic) is called the person ordered to buy or the seller, and the person ordering the purchase may pay the price to the bank immediately, in instalments, or deferred, and the price is usually paid according to equal monthly or annual instalments, or in one payment after a specified period. This sale is carried out by Islamic banks and constitutes a large percentage of their total investments.

#### **Elements of Murabaha sale for the purchase order:<sup>30</sup>**

The first party: the purchase order.

The second part is the Islamic Bank.

The third-party: the seller.

#### **The wisdom of the legality of Murabaha to command purchase:<sup>31</sup>**

-Lack of efficiency when purchasing the commodity undertakes Buyerin form at Murabaha to whoever does it by purchasing the commodity then selling it He has a profit after that.

-Loss possibility regulatory to accomplish shopping about Murabaha buyer, interested to others to work in this profession.

-non Funding capacity about Jupiter, interested to others to work the job, then sell for him Murabaha in instalments.

-discount the risk to the buyer is Murabaha when Period First purchase from equipped and they had brought commodity, the bank is in the process of Murabaha Yasin Course My finance only but a rather Course Also commercial.

#### **Practical procedures for the Murabaha sale to the purchase orderer<sup>32</sup> :**

- Submitting the customer (the purchase orderer) to a Murabaha sale request to the purchase orderer atbankIn it, he specifies the commodity to be purchased, its type, description, and quantity, in addition to other information such as the cash price of the commodity in the market, the name of the person who orders the purchase, his occupation, the method by which he will pay the price, and the percentage of profit that he will pay to the bank.

- Examination of the application by the finance department in bank Islamic and inquiring about the customer (his reputation, experience, financial position, etc.)

- Informing the client of the reasons for approval (in the event of approval of granting financing).

- Signing a contract between two parties to buy bank The required goods and sell them to the purchase orderer with the stipulated terms.

- The Islamic bank begins with the procedures for purchasing the goods, and the person ordering the purchase sometimes acts as a directive bank To purchase from a specific merchant by bringing an invoice for offers from the merchant to the bank or to facilitate merchant contact And the bank with each other, and in that case, it must be done bank By completing the sale transaction with the merchant for the ownership of the goods to be transferred from the merchant to the merchant bank.

- get upbankThe Islamic informs its customer who orders the purchase that the goods are ready for delivery, so all documents are signed

<sup>30</sup>Muhammad Nada Libdeh, Financial investment and its role in developing the global economy and limiting the occurrence of financial crises, Dar Al-Fikr Al-Jami` .il,2015, pp. 138-139.

<sup>31</sup> Shabeer, Muhammad Othman, Contemporary Financial Transactions in Islamic Jurisprudence, Amman, Dar Al-Nafais, 2007, pp. 308-318.

<sup>32</sup>Muhammad Mahmoud Makkawi, Finance by Murabaha in Islamic Banks, House of Thought and Law, Egypt, 2015, p. 51.

to prove the rights of both sides, such as the signing of bills of exchange and statements.

- get up bank By handing over the purchase order of the commodity according to the specifications that have been agreed upon, and if it violates the specifications, the bank bears full responsibility, even in the event of a commitment to the promise.

**Accounting treatment of the Murabaha contract for the purchase orderer according to AAOIFI standards<sup>33</sup>**

**Standard range:** This criterion applies to assets available for sale by Murabaha or Murabaha to the purchase orderer and the revenues, expenses, gains and losses of those assets and Murabaha receivables, whether the bank purchased those assets from its funds or its funds mixed with restricted and unrestricted investment accounts.

And the Before talking about the accounting treatment of Murabaha and Murabaha for the purchase orderer, it is necessary to address the most important principles included in the standard of Murabaha and Murabaha for the purchase order issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

**Accounting treatment of the Murabaha contract for the purchase orderer according to AAOIFI standards:** Treat standard Murabaha Among the accounting and auditing standards for Islamic financial institutions are the following

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<sup>33</sup>Accounting and Auditing Standards for Islamic Financial Institutions, Accounting and Auditing Organization for Islamic Financial Institutions, Manama, Bahrain: 2007: p. 145– 149.

**Table No. (1) summarizes all stages of the accounting treatment of the Murabaha purchase order by the international standard**

<b>First: Promise stage (or initial contract)</b>	
The customer pays a deposit (seriousness guarantee margin) <sup>34</sup>	
	from h/ cashxxx
To H/ Insurances Seriousness Guarantee: xxx	
<b>Second: the stage of owning the goods</b>	
<b>a-</b> The purchase entry for the goods is recorded at the value of the goods plus the expenses to be ready for delivery to the customer <sup>35</sup>	
	From h/ murabaha goods:xxx
to h/ cashxxx	
<b>B-</b> get bank The Islamic bank is determined after the acquisition of the goods and the approval of the Sharia Supervisory Board to consider it as revenue <sup>36</sup>	
	From h/ murabaha goods:xxx
to mentioned	
H/ Payment method: xxx	
h/revenue Investment: xxx	
<b>Third: the selling stage</b>	
<b>a-</b> When concluding the sale contract with the person ordering the purchase according to the promise and the sale in cash. <sup>37</sup>	
	from h/ cash
to mentioned	
H/ Murabaha Goods:xxx	
h/ investment profits: xxx	
<b>B-</b> When concluding a contract with the orderer to buy according to the promise and to sell on time. <sup>38</sup>	
	From H/ Al Dhimma to Murabaha:xxx
to / mentioned	
H/ Merchandise for Murabaha:xxx	
H/ Investment profits for the current period: xxx	
h/ Deferred investment profits: xxx	

<sup>34</sup> Khaled Amin Abdullah, Hussein Saeed Saifan, Islamic Banking Operations / Modern Accounting Methods, Dar Wael for Publishing and Distribution, Amman, Jordan, 3rd edition, 2015, pp. 132-141.

<sup>35</sup> Hussein Saeed, Islamic Banking Accounting Lectures, Jordan, 2007-2006, s 5.

<sup>36</sup> Samhan, Hussein, Program of the Course of Accounting Processes for Islamic Banking Operations, General Council for Islamic Banks and Financial Institutions ((cibafipp. 23-33.

<sup>37</sup> Mahmud MrAbdel Aal, Accounting treatment of Islamic financing tools. Dubai, Dar Al Qalam for Publishing and Distribution, 2013. pp. 126-127.

<sup>38</sup> Abd al-Rahman Zaidan Attia, Islamic Accounting, Dar Wael for Publishing and Distribution, Amman, Jordan, first edition, 2014, p. 204.

<b>Fourth: the stage after selling the goods<sup>39</sup></b>	
<b>A- Pay the instalment from its due date</b>	
	From h/ cashxxx
To h/ Murabaha receivables: xxx	
Profits are recognized according to the accounting entry:	
	Of the deferred investment profits: xxx
To h/ realized investment profits: xxx	
<b>B - Customer delay in payment:<sup>40</sup></b>	
<b>1- Working on converting the debt of the Murabaha into a due debt (other than paid)</b>	
	From h / liabilities Murabaha due (other than paid): xxx
to his/her fault Murabaha:xxx	
<b>2Converting the deferred profit into a pending investment profit</b>	
	of h/earningsinvestment deferred: xxx
to h/ earnings investment outstanding: xxx	
<b>3- When the customer makes the payment</b>	
	from h/ cashxxx
to his/her faultMurabaha due( notPaid):xxx	
	of h/earningsinvestment outstanding: xxx
To H/ Investment Profits (Murabaha): xxx	
<b>Fifth: early repayment<sup>41</sup></b>	
Part of the profit can be returned against early payment, provided:	
Not stipulated at the beginning of the contract.	
The profit will be returned from Side The bank in the form of non-binding donations.	
<b>a-Upon payment: the accounting entry is recorded</b>	
	From h/ cash: xxx
To Murabaha receivables: xxx	
<b>B-Realization of Profits: To prove the realization of profits, the accounting entry is recorded</b>	
	From h/ deferred investment profits: xxx
To H/ Realized investment profits (Murabaha): xxx	
<b>c-Return part of the profits to the customer</b>	
	From h/ investment profits (Murabaha)
To h/ means of payment: xxx	

<sup>39</sup>Abdullah, Khaled and Saifan, Saeed, Islamic Banking Operations: Modern Accounting Methods, Amman, Wael Publishing House, 2011, p. 140.

<sup>40</sup>Ali, Al-Sadiq Muhammad, A Study of Analysis and Measurement of Murabaha and Murabaha Operations for the Purchase Order According to Accounting Standards for Islamic and Financial Institutions: A Case Study of Islamic Banks in Sudan, Islamic Banking Services Conference between Theory and Practice, Ajloun National University, Jordan, 2013, p. 27.

<sup>41</sup>Abdul Rahman Zaidan Attia, Islamic Accounting, 2014.Previous reference,p. 204.

<b>Sixth: Delay Penalty (Unpaid Murabaha Liability)<sup>42</sup></b>	
The client's status is viewed when processing as follows:	
<b>a-</b> If the customer is insolvent: No It is permissible to collect delay fines, otherwise it becomes usury, as the Highest said (And if it is difficult, then look at the ease). <sup>43</sup>	
<b>B-</b> If he is well-to-do: the delay fines are collected from him, according to the noble hadith in which God's Prophet Muhammad, may God's prayers and peace be upon him, said: "The delay of the rich is unjust." <sup>44</sup>	
	From h/ cash: xxx
To the Charity Fund: xxx	
<b>Seventh: The purchase orderer (retracts from the deal) after the bank purchases the goods</b>	
The person in command may withdraw from his property, which means that the bank may incur losses as a result. At this stage, it acts accountably based on the promise made between the two parties to the contract, whether the promise is binding or not.	
<b>a-</b> Nakul is the one who ordered the purchase with the obligation to promise <sup>45</sup>	
If the goods are sold at a loss or evaluated by arbitrators at a value below its cost with a serious margin; In this case, the amount of actual damage is taken from the margin's blood money.	
	of those mentioned
	h/ cash: xxx
	H/ cash insurances (for the value of actual damage to bank): xxx
To H/ Murabaha Goods:xxx	
<b>B-</b> Nikol who orders the purchase without being bound by the promise: bears the bank's full responsibility for the goods; The seriousness margin is returned to the person who orders the purchase, and the goods are treated as simple Murabaha goods.	

Source / prepared by the two researchers, based on Al-Ayoufi publications

<sup>42</sup> On, Al-Sadiq, a study of the analysis and measurement of Murabaha and Murabaha operations for the purchase order, 2013, Previous reference, p. 27.

<sup>43</sup> Verse No. 279, Surat Al-Baqara.

<sup>44</sup> Sahih Hadith: Bukhari and Muslim included it.

<sup>45</sup> Samhan Hussain, Program for the Course of Accounting Processes for Islamic Banking Operations. **reference former**, pp. 91-90.

**Practical application****Murabaha in bank Iraqi Islamist****An introduction to the bank**

The Iraqi Islamic Bank for Investment and Development was established on December 19, 1992.

The legal requirements for amending the capital were completed, and the increase was included, so the bank's capital became two hundred and fifty billion Iraqi dinars, as of the date 3/5/2014

And the activity of the bank began with all its powers by the Central Bank of Iraq on 23/2/1993. The bank participated in the development and advancement of the economy in the country.

The Iraqi Islamic Bank is considered the first Islamic bank based on innovative methods in developing banking transactions in Iraq to be compatible with the provisions of Islamic Sharia, especially during the current political and economic situation.

The Iraqi Islamic Bank, through its main branch, began to assist government banks in providing financial products for people and institutions, as well as practised investment in all areas of investment dependingsystemsIslamic law

From the moment of establishment, the Iraqi Islamic Bank aims to implant Islamic values and principles in the bank's financial dealings.<sup>46</sup>

**The relative weight of Murabaha in Islamic financing of the bank**

Table 2 shows the two types of financing that he practices bank Iraqi Islamist, and the numbers show that bank It relies on the Murabaha system more than Musharaka, as the percentage of Murabaha financing to the total financing amounts to 73 and 98 percent for the years 2019 and 2020, respectively. The reason for this is that the Murabaha financing formula is less risky and easier to implement, and it can be applied to capital financings such as real estate and cars, and it can be applied to

Consumer Goods such as hardware and household electrical.

<sup>46</sup>The official website of the Islamic Bank of Iraq  
<https://www.iraqiislamicb.iq>

**Table No. (2) shows the types of investment in bank Iraqi Islamist**

the amount	the amount	Funding type
Thousand dinars	Thousand dinars	
2019	2020	
3916679	5566023	Murabaha
1478583	126044	Participation
5395262	5692067	the total
0.73	0.98	The ratioCentennial

Source / prepared by the researchers based on the bank's published financial statements

**Accounting procedures followed before an Islamic**

To organize the presentation of the procedures and to facilitate the comparison process, we will review the proceduresbankIslamic

according to the same sequence as the table above.

For accuracy in clarification, procedures will be reviewedbankAssuming a practical example of Murabaha, the same is summarized in the following table:-

**table no(3)Shows the specifications of the commodity to be contracted for**

iPhone 13, 256 GB, gold	<b>Item type</b>
One million and 800 thousand dinars	<b>market price</b>
2 million dinars	<b>The price at which the customer buys</b>
100 thousand dinars	<b>monthly instalment</b>
100 thousand dinars	<b>earnest (margin of earnestness)</b>

Source / prepared by the researchers, a hypothetical example

**Table No. 4 Practical procedures for dealing with the Murabaha sale in the Islamic Bank of Iraq**

<b>First: Promise stage (or initial contract)</b>	
The customer submits a Murabaha financing request, specifying: the commodity, its specifications, price, original price, and the price at which it can be purchased / and the request is attached to the amount of (the down payment), (the seriousness guarantee margin)	
	100,000 h/ cash
100,000 to h/ insurances Seriousness guarantee:	
<b>Second: the stage of owning the commodity Or / the stage of studying and approving the application</b>	
not capped Dr Stage to have commodity EN bank, not buy the commodity is free from the owner and takes ownership of it. Rather, he studies the request and contacts the marketer of the commodity and fixes the price with him (finally), then he contacts the customer to complete the deal, as follows:	
2,000,000 From H/ Murabaha receivables	1) The sale contract is signed at a price bank to the client
1,800,000 to h / Murabaha goods	
200,000 to h/ Murabaha profits	2) The down payment is considered the first installment
100,000 From h/ seriousness guarantee insurances	
100,000 To H/ Murabaha receivables	



100,000 from h/ cash 100,000 To H/ Murabaha receivables This entry is repeated upon receipt of each instalment	3) Upon receiving the installment from the customer
1,800,000 h/ Murabaha goods 1,800,000 to h/ cash	4) As for paying the amount to the original owner of the goods, it will be
Note: If the person ordering the Murabaha purchase (the customer) withdraws from his request after paying the down payment. The reason for this will be submitted to the bank, the bank will study the application and decide	
100,000 of the seriousness guarantee insurance 100,000 to h/ Murabaha revenues	Either/all deposits forfeited
100,000 of the seriousness guarantee insurance 50,000 to h / Murabaha revenues 50,000 to h/ cash	Or / return half of the amount to the customer

Source / prepared by the two researchers based on the current treatments in the bank

### Other information about Murabaha-related disclosure

Study the published financial statements to the bank. The researcher found the following points:

- 1) The value of assets when executing the Murabaha is measured at historical cost.
- 2) show within the clarifications that Murabaha receivables (deferred sales receivables) are measured when cost occurs; And it is measured at the end of the term. Finance under cost or expected to be collected from net monetary value whichever is less.
- 3) It was mentioned in the notes that profits Murabaha Complete adopt it. When contracting, no distribution within the periods coming.
- 4) About the financial statement, the deferred profit is not deducted from the Murabaha receivable.
- 5) There is no clear treatment of early repayment - if it occurs.
- 6) There is no clear handling of cases of customer insolvency or delay in payment - if any. <sup>47</sup>

<sup>47</sup>The official website of the Islamic Bank of Iraq, (reference former)  
<https://www.iraqiislamicb.iq>

### Discussion, results, recommendations

#### Discussion:

Referring to the restrictive treatments followed by the Islamic Bank of Iraq (displayed in Table 3 above), and by examining the disclosure information that was presented in the previous paragraph, we find the following points:

- There are clear violations of the treatments referred to in the "AAOIFI" standards, and the most important of these violations is not buying bank For the commodity (or commodity) that is the subject of the Murabaha, but the purchase process is postponed until after the instalment has been received from the customer.
- The constraint processors used before the bank are abbreviated and do not include all the odds. The process of the Murabaha contract, from the contract to the end of the payment.
- If the customer withdraws his request - after the down payment - The bank either confiscates the entire amount or half of it, and the estimate of that is left to the bank - After studying the customer's reasons - and what is more correct - according to the "AAOIFI" standard, the initial contract (Murabaha application form) should stipulate the possibility of withdrawal or mandatory the request, then the rule (the contract is the law of the contracting parties) applies, and the matter is not left to estimates bank.

- get upbankBy endorsing the entire Murabaha profit upon the release of the main entry for the Murabaha at the final contract. This is contrary to accounting norms, especially if the Murabaha instalments extend for more than one fiscal year.

### Conclusions:

Based on the foregoing, the researcher concludes the following:

- He approves bank The Iraqi Islamic is based on the Murabaha formula more than the Musharaka formula.

Other forms of financing (Istisna', Salam sale, Sukuk) were not included Islamic...) in the final accounts to the bank, which indicates that these financing formulas are not dealt with bank Iraqi Islamist.

- does not comply bank The Iraqi Islamic terminology mentioned in the Murabaha standard issued by AAOIFI.

- The accounting disclosure presented in the closing statements to the bank is Insufficient, for example, there are no clarifications about insolvency cases and early repayment cases.

### Recommendations:

The researcher recommends the following:

- The necessity of a committed bank by AAOIFI standards, Because it Guarantees safe dealings bank and improves its national reputation and international and avoids the risks of Compliance.
- The necessity of investment bank Islamic money and customer deposits in the form of Murabaha to command by purchasing to increase its revenues and profits for its customers.
- The need for future research to delve into the causes of non-compliance with bank Murabaha procedures This is a prelude to developing successful solutions.

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