



THE AWARENESS OF MURABAHAH FINANCING
FACILITIES AND THE PERCEPTION TOWARDS THE
ACCOUNTING PRACTICES OF MURABAHAH
AMONG ACCOUNTING STUDENTS IN MALAYSIA

BY

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ABSTRACT

Accounting practitioners of Islamic banks in Malaysia are found to be unaware of the accounting issues related to *Murabahah* and *Bai' Bithaman Ajil*. Besides, it is also found their acceptability of the current accounting standards and guidelines adopted in Islamic banks is moderate due to their lack of knowledge and exposure on the issues of recognition, measurement and disclosure of *Murabahah*. Since accounting students are future potential bank customers and are more likely to move onto careers as professional employees in the accounting labour market, the unchanging curriculum is one of the reasons for the gap between the market's needs and graduate's knowledge. On the other hand, the expectations are changing from time to time and education holds the key to address these human capital issues. Therefore, the study focuses on Malaysia and has three main aims: to investigate (1) the level of awareness of *Murabahah* financing facilities among accounting students; (2) the level of knowledge of *Murabahah* financing facilities among accounting students; and (3) the perception of accounting students towards the existing accounting practices of *Murabahah* financing according to MFRS 118 and the guidelines of MASB TRi-4. This research is constructed using quantitative methodology which undertakes quantitative data collection and data analysis. The primary data is gathered from questionnaire surveys and distributed among 550 accounting students. The observational data is tested by the propositions developed and is used to develop conclusions to achieve the aim of this study. The study utilizes the reliability statistic Cronbach's Alpha, two inferential statistical analysis techniques, namely, the Mann-Whitney test and Kruskal-Wallis test, Pearson correlation analysis and Stepwise multiple regression analysis to assess the data. The results of the Pearson correlation tests indicated that there is a significant relationship between the respondents' awareness of *Murabahah* financing and their education level as the higher the level education, the more the respondents are aware of *Murabahah* financing. The study also found that the majority of accounting students in Malaysia are aware of *Murabahah* financing and they have a moderate level of knowledge of the underlying concept of this type of financing as well as the accounting practices of *Murabahah* in accordance with MFRS 118 and MASB TRi-4. It also found that there is moderate acceptance of the existing accounting practices of *Murabahah* financing according to MFRS 118 and the guidelines of MASB TRi-4 among accounting students in Malaysia in terms of recognition, measurement and disclosure and presentation. While the study has some limitations, this study has the potential to make a contribution towards the accounting education particularly with respect to identify the need to incorporate an improved syllabus of Islamic banking products and services as well as their accounting practices in tertiary-level accounting courses in Malaysia, specifically *Murabahah* financing, in terms of the accounting treatments for recognition, measurement and disclosure and presentation.

خلاصة البحث

لقد وجد أن ممارسي المحاسبة للمصارف الإسلامية في ماليزيا غير واعين بالقضايا المحاسبية المتعلقة بالمراجعة وبالبيع بثمن آجل. كما وجد أن قبولهم للمعايير المحاسبية الحالية والدليل المعتمد في المصارف الإسلامية معتدل؛ وهذا بسبب نقص معرفتهم وتعرضهم لقضايا الإدراك، والقياس، والإفصاح عن المراجعة. نظرا لأن طلبة المحاسبة يعتبرون الزبائن المتوقعين للبنوك في المستقبل، والذين سيصبحون موظفين محترفين في سوق عمل المحاسبة. تعتبر المناهج غير المتغيرة أحد أسباب وجود فجوة بين احتياجات السوق ومعارف المتخرجين من جهة، ومن جهة أخرى فإن التوقعات تتغير من وقت لآخر، وأن التريبة تبقى العامل الوحيد الذي يتعامل مع قضايا الرأس المال البشري. لذلك تركز هذه الدراسة على ماليزيا ولها ثلاثة أهداف رئيسية: التحقيق في (1) مستوى الوعي لدى طلاب المحاسبة حول التسهيلات التمويلية للمراجعة؛ (2) مستوى المعرفة لدى طلاب المحاسبة حول التسهيلات التمويلية للمراجعة؛ و (3) مدى إدراك طلاب المحاسبة للممارسات المحاسبية الحالية المتعلقة بتمويل المراجعة وفقا لـ MFRS 118 ودليل MASB TR-4. لقد تم إنشاء هذا البحث باستعمال المنهجية النوعية، كما مر على مرحلة جمع وتحليل البيانات الكمية. ولقد تم جمع البيانات الأولية عن طريق الاستبيانات التي وزعت على 550 طالب محاسبة. وقد تم اختبار بيانات الملاحظة من طرف الافتراضات المعروضة، والتي استعملت للخروج باستنتاجات من أجل تحقيق هدف هذه الدراسة. وتستخدم هذه الدراسة إحصائية صدق ألفا كرونباخ، وتقنيتان للتحليل الإحصائي الاستنتاجي؛ وهما اختبار مان ويتني واختبار كروسكال-واليس، تحليل الارتباط بيرسون، تحليل الانحدار المتعدد المتدرج لتقييم البيانات. أشارت نتائج اختبارات معامل بيرسون أن هنالك علاقة ذات دلالة إحصائية بين وعي الطلبة لتمويل المراجعة ومستوى تعليمهم، فكلما كان المستوى التعليمي أعلى كلما كان إدراك الطلبة بتمويل المراجعة أكبر. كما وجدت الدراسة أن أغلبية طلبة المحاسبة في ماليزيا واعين بتمويل المراجعة، وأنه لديهم مستوى متوسط في المعرفة المتعلقة بمفهوم هذا النوع من التمويل وبالممارسات المحاسبية للمراجعة وفقا لـ MFRS 118 و MASB TR-4. كما وجدت الدراسة أن هنالك قبول معتدل للممارسات المحاسبية الحالية لتمويل المراجعة وفقا لـ MFRS 118 ودليل MASB TR-4 وسط طلاب المحاسبة في ماليزيا وهذا فيما يخص الإدراك، والقياس، والإفصاح، والعرض. بالرغم من أن لهذه الدراسة قيودا، فإن لها مقدرة على أن تساهم في تعليم المحاسبة، وخاصة فيما يخص تحديد الحاجة إلى دمج منهج محسن لمنتجات وخدمات الصيرفة الإسلامية وممارساتها المحاسبية في برامج المحاسبة في التعليم العالي في ماليزيا، وبالتحديد تمويل المراجعة؛ فيما يخص معالجة المحاسبة للإدراك، والقياس، والإفصاح، والعرض.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

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DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Nur Hidayah Binti Hassan

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With love and respect:

Hassan Sulaiman

and

Abiba Othman

For giving support and encouragement throughout the duration of my studies

To my beloved husband:

Asyraf Amin Bin Jamal Abdul Nasir

For your endless love, constant understanding, invaluable sacrifice and unwavering support throughout the period of my studies

To my dearest son:

Muhammad Aidan Yusuf Bin Asyraf Amin

Who means the world to me.

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LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institution
AOSSG	Asean-Oceanian Standard-setters Group
BBA	<i>Bai' Bithaman Ajil</i>
BNM	Bank Negara Malaysia
FAS	Financial Accounting Standards
FRS	Financial Reporting Standards
IASB	International Accounting Standard Boards
IBF	Islamic Banking and Finance
IFIs	Islamic Financial Institutions
IFRS	International Financial Reporting Standards
IFSA	Islamic Financial Services Act 2013
ISA	International Standards on Auditing
LIBOR	London Interbank Offer Rate
MASB	Malaysian Accounting Standards Board
MFRS	Malaysian Financial Reporting Standards
SOP _i	Statement of Principle <i>i</i> -1 on <i>Murabahah</i> , the Principles and Practices of <i>Shari'ah</i> in Islamic Finance
TR _i -3	Technical Release- <i>i</i> on the Presentation of Financial Statements of IFIs
TR _i -4	Technical Release- <i>i</i> on <i>Shari'ah</i> Compliant Sales Contracts

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Islamic banking has emerged as one of the fastest growing industries over the past three decades and it has grown tremendously at a rapid speed, posting unprecedented growth since it first emerged in the 1970s (Bank Negara Malaysia (BNM), 2013). It has spread to all corners of the globe and received widespread acceptance from both Muslims and non-Muslims alike (Dusuki and Abdullah, 2007). According to Ernst & Young's World Islamic Banking Competitiveness Report 2013–2014, Islamic banking assets were set to surpass USD1.7 trillion by the end of 2014, signifying an annual growth rate of 17.6 percent over the last four years (Bank Islam Malaysia Berhad (BIMB), 2014). The Islamic banking industry in Malaysia is currently shifting through a new phase of development with the implementation of Islamic Financial Services Act 2013 (IFSA) that amalgamated several separate laws into a single legislative framework with the main objective to promote financial stability and compliance with the *Shari'ah* principles (IFSA, 2013).

Furthermore, Islamic banking services are based on *Shari'ah* principles that govern the operations of Islamic banks and it is also regard them as entities with distinctive characteristics (Dusuki, 2007). Due to the different characteristics of Islamic banks' transactions, this may also have accounting implications that are different from those for transactions in conventional banks (Napier, 2007). Thus, there is a need for a different set of accounting standards for Islamic banks and the need to develop products and services that are *Shari'ah* compliant to meet the financial needs of Muslims (Dusuki and Abdullah, 2007).

In this context, *Murabahah* financing is vital to Islamic banks and financial institutions as it dominates their financing activities such as home financing, motor vehicle financing, personal financing and trade financing (Almsafir et al., 2013; Mat Isa, 2012; Masood, 2010; Napier, 2007). *Murabahah* is the sale of goods at cost plus a mark-up where the cost of purchase and the profit amount should be informed to the purchaser (Abdul Rahman, 2010). The author also further explains in the case of *Bai' Bithaman Ajil* (BBA), the sale is paid for by instalments, whereas the term used for a sale against deferred payment (either in a lump sum or instalments) is called *Bai' Al-Muajjal*. Additionally, the majority of scholars agree that the selling price in a deferred sale should be set higher than the cash sale (Abdul Rahman, 2010). To some extent, *Murabahah* seems to function similar to BBA but *Murabahah* allows medium and short-term financing. In Malaysia, short-term credit *Murabahah* is known as *Murabahah* with payable in lump sum while a long-term credit *Murabahah* is called BBA in Malaysia (Abu Talib, 2013).

However, as cited in Napier (2007), although the *Murabahah* financing model is widely accepted by jurists, it is argued that this financing element is similar in some aspects to the loan practices of conventional banks (Siddiqi, 1983; Al-Abadi, 1988; Al-Azzizi, 2000; see also Hmoud, 1988) because of the issue of the relevance of conventional accounting standards such as International Accounting Standard (IAS) 18 Revenue Recognition since the accounting treatment is not in accordance with Islamic principles. Furthermore, IAS 18 requires the financing charges to be separated from the profit margin and to be recognized on a time proportion basis while the profit margin should be recognized when the risks and rewards of the products are transferred to the customer.

On the other hand, the accounting policies of recognition, measurement, disclosure and presentation currently used by Islamic banks appear to differ. Therefore, there is a need to regulate the financial reporting by Islamic banks since the accounting standards developed for conventional banks are hardly relevant for Islamic banks. This is because the nature of the operations and financial instruments used in Islamic banks are different from those in conventional banks. Moreover, the conventional accounting rules applied in conventional banks are based on technicality and not on ethical rules (Karim, 1996).

Nevertheless, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has been established to promulgate accounting and auditing standards for Islamic banks. In Malaysia, national law and regulations have required Islamic banks to adopt Malaysian Financial Reporting Standards (MFRS) 118 Revenue Recognition and, in addition, relevant Malaysian Accounting Standards Board (MASB) technical releases are also applied such as MASB Technical Release-*i* (TR*i*-3) on the Presentation of Financial Statements of Islamic Financial Institutions (IFIs) and MASB Technical Release-*i* (TR*i*-4) on *Shari'ah* Compliant Sales Contracts.

1.2 PROBLEM STATEMENT

Most of the potential customers of Islamic banks are usually not aware about the nature of Islamic banking or try to avoid it not only in non-Muslim communities, but also in Muslim communities (Dusuki, 2007). The author also added that customers will opt for Islamic banking if it offers additional features such as providing high-quality and satisfactory services and improving their products and services to be in line with the precepts of *Shari'ah* (Dusuki, 2007).

Furthermore, Hamid et al. (2011) stated that since the conventional banking system is well established in Malaysia, most of the Malaysian population still favours conventional banking over Islamic banking due to the lack of customer awareness about Islamic banking, lack of competitiveness of Islamic financing products and lack of specialized officers at branch level to educate customers. One of the studies on other country such as the United Arab Emirates (UAE) reveal that customer awareness and knowledge of conventional banking terms is more advanced than Islamic banking terms (Bley and Kuehn, 2005). Besides, past studies have shown that customers have limited knowledge and exposure to the function of the Islamic banking system and its concepts such as *Murabahah*, *Ijarah*, *Mudarabah* and *Musharakah* (Rammal and Zurbruegg, 2007; Ahmad and Haron, 2002; Gerrard and Cunningham, 1997). Due to these problems, Islamic banks are perceived as similar as to conventional banks by customers since they expect the same financing facilities to be provided by both Islamic banks and conventional banks.

Furthermore, a past study by Abu Talib (2013), which aimed to determine whether practitioners are aware of the accounting practices of *Murabahah*, found that accountants and financial accounting executives of Islamic banks in Malaysia are not aware of the accounting issues related to *Murabahah* and BBA. The study also found that there is a moderate acceptability of the current accounting standards and guidelines adopted in Islamic banks in Malaysia among the respondents due to their lack of knowledge and exposure on the issues of recognition, measurement and disclosure of *Murabahah* and BBA. Besides that, there has been few research on students' perceptions towards Islamic banking in the Asia Pacific region, particularly Malaysia, and students should be selected as respondents because they are future potential bank customers and are more likely to move onto careers as professional

employees (Ahmad et al., 2011). Hence, this study seeks to fill a gap in the literature on the awareness and knowledge of *Murabahah* financing facilities among accounting students in Malaysia because their perception towards accounting practices of *Murabahah* have not been explored and therefore the results will contribute significantly to the current literature by assessing their level of awareness and knowledge of *Murabahah* financing facilities and their perception towards accounting practices of *Murabahah*, specifically MFRS 118 and TRi-4 in Malaysia. The accounting students are selected from undergraduate and postgraduate students as they are expected to become part of the accounting labour market in the future and they are more likely to become accountants.

On the education side, due to considerable changes in the socio-economic scenario and advances in technology that have taken place over the years, accounting graduates are expected to have basic skills as defined by educational institutes and professional societies as well as knowledge of international issues such as laws, ethics, accounting standards and information resources (Mashayekhi and Mohammadi, 2014). However, Mashayekhi and Mohammadi (2014) also further explain that changes in customers' expectations have resulted in a change of the accountant's role in the labour market. The authors also added the unchanging curriculum in universities has led to a lack of conformity between the market's needs and expectations and the graduates' knowledge and skills. It can be concluded that accounting education in its current situation and the level of skill of accounting graduates is not in line with the requirements of the market and this has led to a gap between what professionals expect from graduates and what they learn.

Additionally, feedback from accounting professionals reveals that students do not graduate with sufficient accounting knowledge and accounting education does not

meet the demands of the employer (Kutluk et al., 2012). It can be further argued that there is a lack of adaptation and suitability in the accounting procedures covered by the current accounting syllabus and that the quality of education is not satisfactory to meet the needs of the market. Hence, considering the existing gap concerning the level of accounting graduates' preparation for the labour market and the expectations of employers, this research aims to provide new findings regarding accounting education in Malaysia. Therefore, this study suggests that changes should be made to the current accounting syllabus in universities through the coordinated efforts of practitioners, academicians, universities and authorities to improve the accounting education programme in terms of covering accounting standards of Islamic banking facilities particularly the MFRS and relevant MASB technical releases such as MFRS 118 and MASB TRi-4.

Moreover, Mashayekhi and Mohammadi (2014) argue that the importance of accounting education research compared to other technical accounting aspects is unknown because there are very few academic research studies and theses related to accounting education. Likewise, it is also essential to ensure that the chosen educational approaches are effective to further promote accounting and its different branches such as the accounting standards of Islamic banking facilities. This is because students need more than merely education. They also need to develop the characteristics of accountants and be able to adapt to any changes in their roles and responsibilities as well as to changes in the market's expectations. Thus, this study intends to contribute towards literature on accounting education in terms of students' awareness and knowledge of *Murabahah* financing facilities as well as their perception towards the accounting practices of *Murabahah* in Malaysia.

1.3 OBJECTIVES OF THE STUDY

Promoting knowledge through education is important and accounting students need to be nurtured to gain the knowledge and skills to understand the key principles of accounting and auditing standards. Besides, they should also be taught about accounting as a technique but they should also realize their responsibilities to the public as part of their accounting education process (Abdul Rahman, 2003).

The study also investigates the awareness and understanding of Islamic banking facilities among accounting students as a crucial educational strategy because awareness is part of the self-development process (Yaacob et al., 2014).

Mashayekhi and Mohammadi (2014) claim that an unchanging curriculum is one of the reasons for the gap between the market's needs and the graduate's knowledge. Therefore, the conjecture of the study is that education holds the key to address the human capital issues. Hence, the syllabus contents and students' awareness as well as knowledge of accounting standards related to MFRS 118 and MASB TRi-4 need to be improved. Therefore, the study aims at gauging accounting students' awareness and their current knowledge of *Murabahah* financing facilities. Besides, the students are also asked about their perception towards the accounting practices of *Murabahah* in relation to MFRS 118 and the guidelines of MASB TRi-4 in Malaysia. The following research objectives are developed to fulfil the aims of the study:

1. To investigate the level of awareness of *Murabahah* financing facilities among accounting students;
2. To investigate the level of knowledge of *Murabahah* financing facilities among accounting students;

3. To investigate accounting students' perception towards the existing accounting practices of *Murabahah* financing facilities according to MFRS 118 and the guidelines of MASB TRi-4 in Malaysia.

1.4 RESEARCH QUESTIONS

In order to achieve the above objectives, the following research questions are established to guide the overall research process, especially data collection, analysis, and interpretation (Mohd-Karim, 2010). The study will explore accounting students' awareness and knowledge of *Murabahah* financing as well as the extent of their acceptance with the existing standards of the existing accounting practices of *Murabahah* financing according to MFRS 118 and the guidelines of MASB TRi-4.

The research questions are as follows:

1. To what extent is the level of accounting students' awareness of *Murabahah* financing facilities in Malaysia?
2. To what extent is the level of accounting students' knowledge of *Murabahah* financing facilities in Malaysia?
3. What is the perception of accounting students towards of the existing accounting practices of *Murabahah* financing in relation to MFRS 118 and the guidelines of MASB TRi-4 in Malaysia?

1.5 MOTIVATION OF THE STUDY

This research seeks to contribute to the field through a study on the awareness of *Murabahah* financing facilities and the perception towards accounting practices of *Murabahah* financing among accounting students in Malaysia. Numerous studies have investigated the phenomenon of customers' awareness of Islamic banks (Khattak and