

The role of adopting Islamic accounting standards AAOIFI in eradicating accounting illiteracy and promoting Islamic investments - an exploratory study of a sample of Islamic economic units

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Abstract: *The objective in this study involves demonstrating the importance in the role of Islamic economic units in eradicating accounting illiteracy, because the adoption of specific basics can enhance transparency and contribute to improving the level of financial reporting, which enhances confidence between investors and customers and thus facilitates decision-making and enables shareholders through informed decisions based on accurate financial information provided by those units, which achieves sustainable economic development and enhances the ability of those units to adapt to economic and social variables as The adoption of these units of Islamic accounting standards based on the principles of Islamic Sharia will help enable individuals working in these units and stakeholders to understand the principles of Islamic accounting and associated standards and then direct them towards correct investment decisions, this research used the deductive approach in the theoretical side and the inductive approach in the practical side by preparing a survey list for a sample of workers in Islamic economic units as well as investors and stakeholders, as the sample included 70 forms that were analyzed statistically. Using the SPSS program, it was concluded that there is a role for the adoption of Islamic economic units of AAOIFI standards in the eradication of accounting illiteracy and its reflection on investment decisions, and the research recommends the need to pay attention to important methods and procedures in promoting accounting literacy in Islamic economic units through the organization of workshops and training courses for employees. Establishing educational curricula commensurate with their needs, cooperating with educational institutions, and preparing partnerships with universities and institutes to provide specialized educational programs to support this field, as accounting literacy in Islamic economic units needs integrated efforts based on activating Islamic accounting standards, which contributes to achieving sustainable development and enhancing economic performance.*

Keywords: *Accounting literacy, Islamic accounting standards, enhancing accounting education for investors, stakeholders in Islamic economic units, investment decisions.*

1. INTRODUCTION

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards are one of the main pillars that contribute to guiding accounting practices in Islamic financial institutions as it aims to provide a unified framework that enables institutions to comply with the provisions of Islamic Sharia, which enhances the effectiveness of transparency and credibility in financial reporting and in the context of determining accounting literacy as the adoption of AAOIFI standards is a vital step to improve the level of understanding of individuals and investors alike, as the complexities of the financial market increase, it becomes necessary for investors to be able to understand financial information accurately, which enhances their ability to make informed decisions. The impact of adopting these standards on investors' decisions goes beyond just improving accounting understanding, as it enhances their confidence in economic units, and makes it easier for them to assess potential risks and returns. Contributes to improving the quality of

financial information, which leads to increasing the attractiveness of investments in the Islamic market. Enhancing accounting literacy through the adoption of AAOIFI standards is a strategic step towards improving the investment environment, and reflects the commitment of Islamic financial institutions to achieve transparency and justice in all their dealings and that their tasks are limited to many fundamentals. Developing training programs for their employees and clients on Islamic accounting concepts, as these programs focus on how to prepare financial reports in accordance with Sharia. It does not miss its role in coordinating with some universities to create graduate programs in Islamic accounting, including study materials on Islamic accounting standards and practices, as these programs aim to graduate professionals familiar with accounting concepts according to the Islamic context. It also does not overlook its role in coordinating with non-formal education institutions as there are non-formal educational initiatives targeting local communities, where short courses in Islamic accounting are offered to individuals seeking to develop their financial skills. Note that there are some small and medium enterprises in Islamic countries have adopted internal training programs for their employees, where they are trained on the principles of Islamic accounting and the importance of adhering to them believing that this leads to improving efficiency and raising the level of financial performance in those units and raising awareness of Islamic financial concepts among individuals and thus enhancing confidence between customers and investors in financial institutions. Through this, the research hypotheses related to this topic and based on the achievement of its objectives will be proved, namely testing the existence of (a correlation between the adoption of AAOIFI in Islamic economic units with accounting literacy) and testing the existence of (the effect of adopting AAOIFI in Islamic economic units on accounting literacy). The relationship between the variables can be shown according to the following scheme:

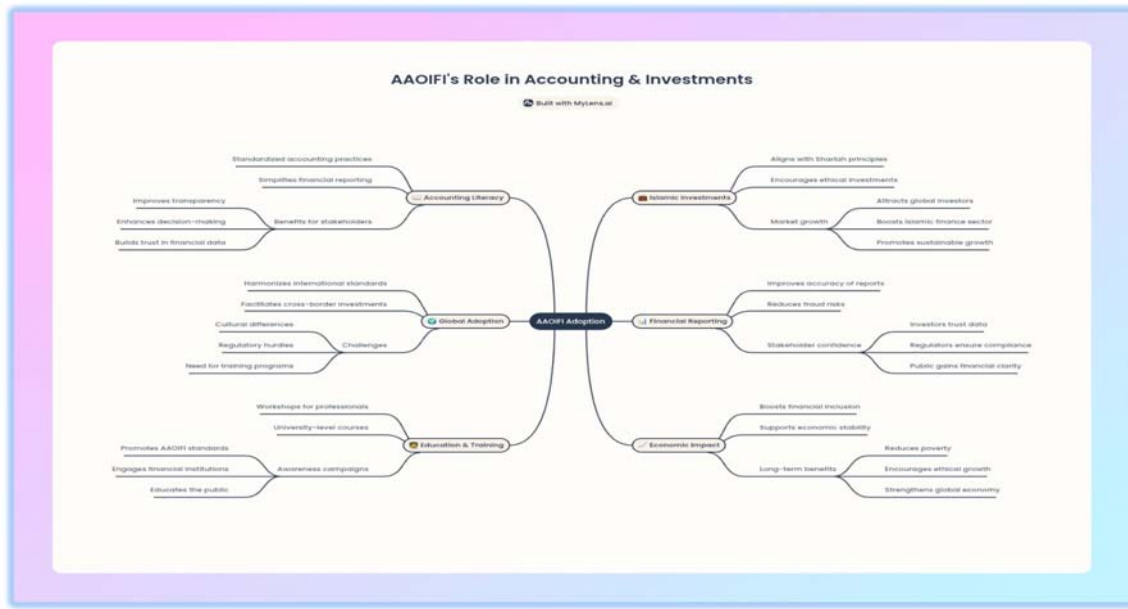


Figure (1) Research variables and their relationship

A. Previous studies:

1) Study (Kareem 2021)

This study dealt with the impact of adopting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) on accounting measurement and disclosure in Islamic banks and this study focused on reviewing the laws, instructions and controls related to financing instruments in Islamic institutions and proposing accounting treatments with the formulation of an audit program for the financing tools used in those units.

2) Study (Balnoor 2018)

The study aimed to clarify fair value procedures in Islamic institutions and to indicate and measure all the effects generated by their application, as the study showed the most important theoretical frameworks related to accounting measurement in the Islamic and conventional approaches, and also showed the importance of employing fair value in accounting measurement in Islamic financial instruments, and also focused on fair value and accounting measurement for Islamic financial instruments.

3) Study (Cunningham 2018)

The study aimed to gauge what the financial learning really was after which an important skill for youth to attain success and truly become who they can be. It was cited that many with a good financial background appear to show positive investment behaviors, both financially and nonfinancially, and that this study ranges just short of

proving the relationship between an individual's background in financial literacy into real-life development benefits in the classroom at Bryant University. This study used preliminary data collected through a survey of 300 Bryant undergraduates and found that the results of this study could be generalized by students and faculty alike in identifying and developing potential pathways to success.

4) Al-Zumara Study 2017

This study refers to the importance of the compatibility of Islamic accounting standards with international standards (IAS/IFRS) to enhance the competitiveness of Islamic financial institutions and openness to financial and economic globalization through the unification of their accounting procedures, as the importance of this is evident in how these standards contribute and work to adopt them in the face of financial and economic risks, which enhances the stability of the Islamic financial system.

The current study focused on the importance of adopting Islamic accounting standards by Islamic economic units and the extent of its impact on increasing the accounting understanding of the accounting information prepared by those units and then reducing accounting illiteracy and promoting Islamic investments in particular, and this is what is unique to the current study according to the selected sample.

B. Theoretical aspect

1) The importance of adopting Islamic accounting standards for economic units

The intention of Islamic Accounting Standards is to bridge the gap between generally accepted accounting principles (**GAAP/IFRS**) and the provisions of Islamic Sharia in order for Islamic Financial Institutions to offer transparent and fair financial reports, while amongst the major aims of such standards is encouraging adherence to Islamic Sharia, such as prohibiting forbidden transactions of usury (interest), gharar (ignorance), and irresponsible speculation, and that they guide institutions to serve the purposes of Sharia, including social justice and economic development (**Dusuki & Abdullah, 2007**). These standards also aim to provide accurate and objective financial information that helps stakeholders (such as investors and customers) in making informed decisions in line with Islamic principles (**Hassan et al., 2019**) Moreover, Islamic accounting standards reinforce the principle of "Accountability to Allah," a central concept in Islamic ethics, whereby the accountant and financial auditor are accountable to Allah for providing honest and transparent information (**Maali et al., 2006**) These standards also support financial stability and sustainable development by

encouraging investment in projects that benefit society, such as infrastructure, education and health, which contribute to improving the well-being of individuals and society as a whole (AAOIFI, 2021; Ullah et al., 2022) Moreover, these standards represent an effective tool in enhancing stakeholder confidence in the Islamic financial system by adopting the principles of good governance and transparency, which are essential to attract international and domestic investments (Rahman et al., 2021).

Islamic accounting standards are also flexible in adapting to global economic developments, with institutions such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) regularly updating their standards to keep pace with the changing needs of Islamic financial markets. For example, recent updates included new standards for complex sukuk and financing structures, which have contributed to enhancing the global competitiveness of Islamic financial institutions (AAOIFI, 2022). Islamic accounting standards are a strategic tool to promote Islamic economic identity at the international level.

2) Adoption of Islamic accounting standards in attracting foreign investments

The reliability and transparency of the financial reports of the Islamic financial institutions are enhanced by the Islamic accounting standards thereby making them more attractive to foreign investments. This is because these standards are based on the principles of Islamic law, which is an ethical and legal framework that is considered to enhance the integrity operations of and financial thus reduces the risks that 2007). are associated with investments (Haniffa & Hudaib,2007) Complying with the rules of transparency and good governance, which are based on standards such as those established by the Accounting and Auditing more Organization secure for and Islamic stable Financial financial Institutions system (AAOIFI) which ensures is a attractive to the international investors seeking long term investments with minimal risk. One of the positive points is that Islamic accounting standards exclude the collection and/or payment (usury) of and interest other forms of excessive speculation, which results in a more ethical and environment. Sustainable Increasing investment popularity of socially responsible investments (SRIe) around the world Many foreign investors view Islamic financial institutions as consistent with environmental, social and corporate governance (ESG) principles (Hassan et al., 2020).

consequently, the coherency of Islamic Accounting Standards with ethical investments increase the opportunities for Islamic financial institutions to attract foreign capital. However, there are challenges in that the continued disparity of Islamic accounting standards even with International Standards (IFRS) presents an issue for international investors that have little understanding of financial statements prepared according to Islamic standards. This gap is, however, closing as regulatory body like AAOIFI is responding with standards that merge Islamic Sharia compliance with global market requirement (AAOIFI, 2022)

Islamic accounting standards, in particular, can increase the confidence of foreign investors in America, Muslim countries, or emerging markets into the Islamic financial system. When they observe strict standards being implemented to foster transparency and fairness, they become less wary of corruption or financial mismanagement (Rahman et al., 2021). QMA's also allow independent Shari'a supervisory bodies to be established to monitor the compliance with these standards thereby providing some assurances that this combination results in a credible

It is considered that the Islamic Accounting Standards would promote foreign investments by enhancing the transparency and with good governance and social responsibility. Efforts to enhance compatibility with international standards are ongoing whereby it will be expected that Islamic financial institutions would attract foreign investments and add to the economic growth in the relevant system-adopting countries. This can be represented in this diagram:

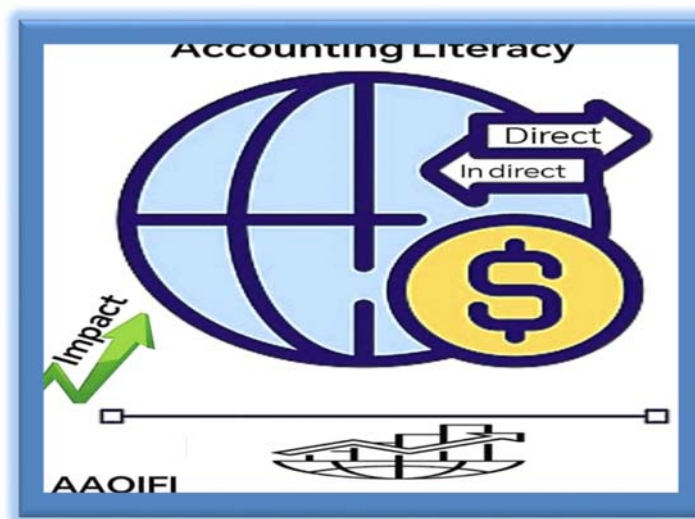


Figure (2) Impact of AAOIFI Adoption on Accounting Illiteracy

3) The importance of accounting illiteracy for stakeholders in Islamic economic units

Accounting literacy is basically an important aspect of financial appreciation that tends to enhance the ability of those knowing about the different facets of accounting so as to improve their decision-making both at the individual level and the business level, that is it an accounting knowledge refers to understand the financial and accounting information through which it can enable the individual to take meaningful financial decisions. A study by the Association of Chartered Accountants found that those with superior accounting knowledge were better off than their peers who had limited financial knowledge in managing personal finances and business management(AICPA, 2020).

Accounting knowledge is essential for understanding documentation like financial statements (balance sheets, income statements, and other financial reports), all of which must facilitate the evaluation of financial performance and identification of revenue and expenditure and be the basis for analyzing profitability, in addition, as knowledge in accounting accessories to increasing transparency and accountability in organizations which helps in building trust among investors and stakeholders (McKinsey & Company, 2019).

Accounting is literacy at the individual level, which empowers the individual to analyze personal finances for savings, investing, and equity from debts.

It provides individuals with a basic understanding and application of accounting principles and thereby creditworthiness in decision-making. Specifically, in the Islamic context, accounting goes beyond just a mechanical tool for recording financial transactions; rather, it promotes fairness and transparency in transactions. Islamic Sharia values encourage integrity and honesty and it is therefore regarded as accounting being an instrumental application of such principles. Moreover, it allows accounting for setting up a Sharia-based system making compliance with laws like Zakat much easier.

Riba has helped improve accounting and enabled economic units to enhance their financial management, thus fostering economic growth and sustainability (Mohammed). The transition to improved accounting knowledge for Islamic economic units not only contributes to enhanced financial performance but also

advances compliance with ethical and Shariah values that are to be the foundation for transactions in Islamic economics.

4) Discussion and results

For this research article, the field research findings on the approach employed to determine the absolute dispersion of the answers' samples from the arithmetic mean will be presented and analyzed using descriptive statistical tools, denoted by the arithmetic mean and standard deviation. , to paint the picture or create an overarching framework of the respondents' preferences and their overall orientations towards the study variables on the five-point Likert scale.70 questionnaires were prepared and designed during the form preparation phase.

5) Method and procedures

In view of the nature of the research and its role in explaining the role of adopting Islamic accounting standards on eradicating accounting illiteracy and promoting Islamic investments, and in order to answer the problematic posed and achieve the objectives of the research and prove the validity of the proposed hypotheses, the reliance was made in the collection of research data through the preparation of the research tool "questionnaire", which included three main sections, the first section of which included the demographic data of the study sample, The second section included a set of paragraphs related to (adopting Islamic accounting standards in Islamic economic units) by (10 items), while the second section included (eradicating Islamic illiteracy and promoting Islamic investments through the adoption of AAOIFI) by (10 paragraphs) and was analyzed according to the tools of inferential statistics.

2. RESEARCH POPULATION AND SAMPLE

The study community included the stakeholders of Islamic units in the local context. The analysis and tabulation of responses have been done by using the specified software (spss.26), and the implementation of the research was through the electronic distribution of the questionnaire via Google Forms. Seventy responses were received, and the five-point Likert scale was employed for measuring the level of attention corresponding to each category of arithmetic media.

A. Demographic data of the research sample

The following table shows the distribution of the research sample as follows:

Table (1) Distribution of Research Sample

Paragraphs	Categories	Number	Ratio
Number of years of experience	Less than 5	20	29%
	From 5-10	10	14%
	10-15	30	43%
	15 and more	10	14%
Total		70	100%
Gender	Female	30	43%
	male	40	57%
Total		100	100%

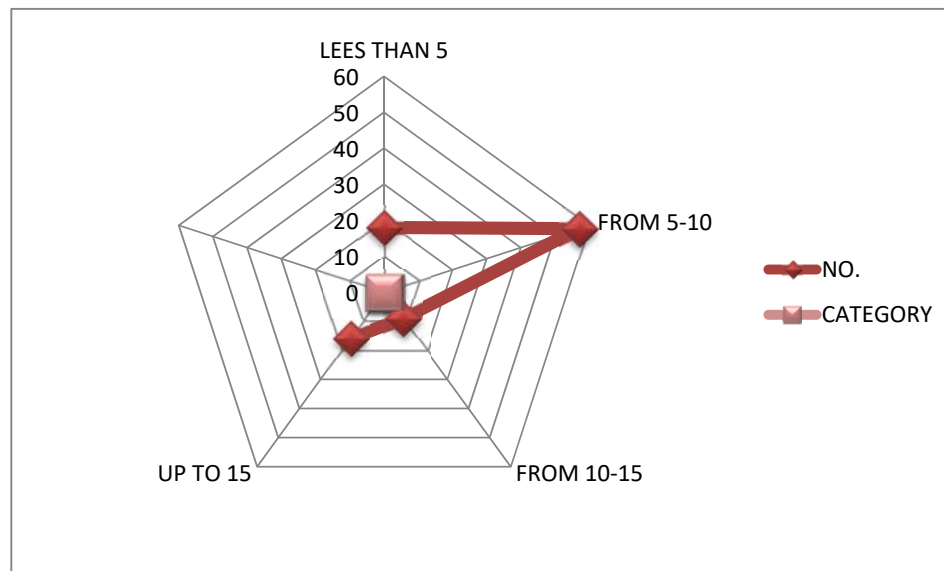


Figure (3) shows the sample response by years of experience

The table and the figure above show us that the research sample was distributed within four categories, where the category (**from 10 to 15 years**) recorded (**43%**) of the study sample, and then the category (**less than 5**) recorded (**29%**), followed by the two categories (**from 5-10**) and (**15 or more**) in equal proportions amounting to (**14%**) of the sample.

B. Stability of the study tool using Cronbach's alpha coefficient:

This paragraph shall reflect the mean reliability of results as obtained from the Reliability Analysis using the Cornbrash's Alpha procedure, implying that if the questionnaire is adapted for the same sample, then the measure contained in that questionnaire will yield the same results as before and the stability coefficient's value retains identical, which ought to be an assurance of reliability.

The results of the Cornbrash's alpha tests of the stability of the results are shown by the table that follows.

Table (2) Cornbrash's Alpha

axles	NO. of Items	Cornbrash's Alpha
The first axis	10	0.712
The second axis	10	0.723
The resolution as a whole	20	0.818

Source: Prepared by the researcher based on the out puts of the SPSS program

From the above Table (2), it depicts that the dominion of Cronbach alpha for the overall questionnaire is **(0.818)**, which is great enough for the purpose of the study. The stability coefficient for the first axis was computed as **(0.712)**; that for the second axis was **(0.723)**. These values indicate that the stability conditions of the questionnaire passages are met, which can be substantiated by the fact that their stability coefficients for the main axes and subaxes are greater than 0.70. Accordingly, this indicates that the stability conditions for each axis paragraphs on the sharpness, as seen from the table.

C. The description on the first part

deals with the adoption of Islamic accounting standards in Islamic ventures. The importance of this axis is revealed by the responses of the sample studied and the corresponding mean, standard deviation, and coefficient of variation results.

Table(3)

The answers of the research sample to the paragraphs of the axis (adopting Islamic accounting standards in Islamic economic units)

t	Questions	Arithmetic mean	Standard deviation	Coefficient of variation %
1.	There is an importance of applying AAOIFI in improving the financial transparency of Islamic economic units	3.23	0.089	2.75%
2.	The application of AAOIFI enhances investor confidence in Islamic economic units	4.21	0.780	18.52%
3.	There is an impact of the application of AAOIFI on compliance with local and international laws	2.13	1.706	80.09%
4.	The application of AAOIFI enhances the financial performance in Islamic economic units	2.85	1.275	44.73%
5.	The application of AAOIFI enhances the skills of accountants in Islamic economic units	4.02	1.325	32.96%
6.	Application AAOIFI reduces financial risks in Islamic economic units	3.73	1.091	29.24%
7.	The application of AAOIFI enhances decision-making in Islamic economic units	3.21	1.230	38.31%
8.	The application of AAOIFI enhances the social responsibility of Islamic economic units	3.52	0.067	1.90%

9.	Promotes the application of Islamic accounting standards in attracting foreign investments to Islamic economic units	2.54	1.061	41.77%
10.	The application of Islamic accounting standards contributes to achieving sustainable development in Islamic economic units	3.33	1.068	32.07%
Adoption of Islamic accounting standards in Islamic economic units)		3.268	0.969	29.65%

Source: Prepared by the researcher based on the out puts of the SPSS program

Table (3) shows the arithmetic means, standard deviation, and coefficient of variation relevant to the respondents' answers to the first axis (adoption of Islamic accounting standards in Islamic economic units). The answer of second question had the highest mean score (4.21) with standard deviations between answers of (0.780) and difference coefficient (18.52%), indicating little dispersion in the responses of the respondents and the significant role played in the importance of adopting Islamic accounting standards in promoting Islamic investments. The next lowest average score, from the third question, gave a mean of (2.13) with standard deviation (1.706) and difference coefficient (80.09%). This indicates a lot of differences and incompatibilities regarding the bank's work with the local laws and instructions. It follows, therefore, from Table 3 that, in the answers of the members of the sample surveyed, relating to their answers to the first axis and answers, all indicate that there is an impact and statistical significant reference in terms of the arithmetic mean (3.268) standard deviation (0.969) difference coefficient (29.65%), showing edited, what degree of homogeneity there is in the content of the paragraphs contained in this axis.

1) Descriptive results of the second variable (Islamic literacy and promotion of Islamic investments through the adoption of AAOIFI):

The importance of the second axis is evident in Table (4), which reflects the sample answers in terms of the arithmetic mean, standard deviation and coefficient of variation.

Table (4) Islamic Literacy and Promoting Islamic Investments through AAOIFI Adoption

t	Questions	Arithmetic mean	Standard deviation	Coefficient of variation %
1.	There is an importance of adopting AAOIFI standards in enhancing the accounting understanding of Islamic banking information users.	4.35	0.876	20.13%
2.	AAOIFI standards help improve the financial analysis skills of Islamic banking information users	2.76	1.261	45.68%
3.	Adopting AAOIFI contributes to reducing ambiguity in the accounting information provided to users of Islamic banking information	3.01	0.771	25.61%
4.	Promotes AAOIFI's adoption of the ability of Islamic banking information users to make informed financial decisions	2.98	1.081	36.27%
5.	The adoption of AAOIFI contributes to raising awareness of basic accounting concepts for users of Islamic banking information	3.98	0.982	24.67%
6.	Adopting AAOIFI contributes to creating a more conscious accounting culture in society	3.12	1.051	33.68%
7.	The adoption of AAOIFI contributes to enhancing accounting education and training for users of Islamic banking information	3.75	1.201	32.02%
8.	Adopting AAOIFI contributes to attracting more investments through the transparency it provides for financial information	4.02	0.832	20.69%
9.	AAOIFI Adoption Contributes to Increasing Opportunities for External Financing for Islamic Economic Units	4.01	1.041	25.96%
10.	AAOIFI's adoption promotes sustainable investment trends in Islamic economic units	2.01	1.104	54.92%
Islamic illiteracy and promote Islamic investments through the adoption of AAOIFI		Eradicate 3.399	1.02	30.00%

Source: Prepared by the researcher based on the outputs of the SPSS program

The vehicle is defined by the use of tables and contains the averages, standard deviations, and coefficients of variance with respect to the responses of both respondents about the second variable. The results showed a distribution between the highest response level reached on the first question with mean value 4.35 and standard deviation among the responses being 0.867 and coefficient of difference 20.13%. This indicates how variable the answers of the sample members were and how important it is to consider this in adopting AAOIFI standards in enhancing the accountants' understanding of Islamic banking information users. Meanwhile, the relatively lower value of the arithmetic mean of the tenth question was for (2.01), with a standard deviation of (1.104) and a coefficient of difference of (54.92%). This shows how dispersed the sample's response was in advancing the AAOIFI recommendations on investments in sustainable market activity by Islamic economic units.

The results presented in Table 4 indicate that most sample members have a positive response to all items in the second area, which yielded a general arithmetic mean of the axis of 3.399, a standard deviation of 1.02, and a coefficient of difference of 30.00%.

D. Testing research hypotheses:

- 1) In this regard, the correlational hypothesis regarding the variables studied will be discussed and tested by testing the first major hypothesis that reads, "There is a significant relationship between the adoption of AAOIFI in Islamic economic units, eradicating accounting illiteracy, and promoting Islamic investments." The table that follows (5) shows the results obtained to test this relationship.:

Table(5) Pearson Correlation

Correlation Test			
Significance level	Eradicating accounting illiteracy and promoting Islamic investments		Variables
<.001	0.741*	Correlation value	Adoption of AAOIFI in Islamic Economic Units

Source: Prepared by the researcher, based on the results of the statistical analysis.

Significant correlation coefficient at the level of significance (0.01).

Table (5) shows that the Pearson correlation coefficient between the first and second variable has reached (0.741*), indicating a positive and statistically significant correlation at the (0.01) significance level. Thus, there is a significant correlation between the two variables, which in turn indicates the relevance of Islamic banks relying on AAOIFI standards, as they contribute to an enhanced understanding of accounting and the elimination of accounting illiteracy, thereby promoting Islamic financial investments in those units. From the foregoing, it can be concluded that since this correlation is statistically significant, the first basic hypothesis is accepted.

- 2) In this light, the cause-response relationship will be discussed and tested between the study variables, particularly the second main hypothesis and the content therein: "There is a significant impact relationship for the adoption of AAOIFI in Islamic economic units on accounting literacy and the promotion of Islamic investments."

This will be analyzed using a hypothesis that states that a significant correlation exists between AAOIFI adoption in Islamic economic units (X) and accounting literacy and promotion of Islamic investments (Y) expressed as below in the following linear regression equation.:-

$$Y = a + \beta X$$

Where Y = Accounting literacy and promotion of Islamic investments, X= adopts AAOIFI in Islamic economic units, β = the slope of the equation (the amount of change in βY which occurs as a result of a change of X units), β_0 = the estimated constants of the statistical model.

The above equation indicates that the relation of this first variable depends on the actual values of the second variable; Table 6 shows the ANOVA and the coefficient results for the effect relations test.

Table (6)

The results of the linear regression analysis of the relationship of influence of the adoption of AAOIFI in Islamic economic units on the eradication of accounting illiteracy and the promotion of Islamic investments

ANOVA							
Sig.	F	R	R ²	Mean Square	Sum of Squares	Sum of Squares	Model
0.000	20.136	.741	.279	7.068	1	7.067	Regression
-	-	-	-	.351	57	20.012	Residual
-	-	-	-		58	27.079	Total
Coefficients							
Sig.	T	Standardized Coefficients		Unstandardized Coefficients		Model	
		Beta		Std. Error	β		
.003	5.022			.352	1.201	(Constant)	
.000	4.730		.621	.135	.651		

Source: Prepared by the researcher based on the outputs of the SPSS program

As can be seen in Table (6), an effect relationship must exist between the two variables, hence constituting the force of correlation that will form a linear regression model upon the strength of correlation and explanatory and influential ability of AAOIFI standards in Islamic economic units over accounting literacy and promoting of Islamic investments. The value of the coefficient (R) for this model was found to be (0.741), indicating statistical significance at the significance level (0.01), F value (20.136) indeed exceeds its tabular value of (4.730)-(the first variable had a firm relationship with the dependant variable by a strong effect), while its coefficient of determination (R²) demonstrated the explanatory power of the linear regression model at (.279) meaning the linear regression

model, and this first variable may provide clear predictions regarding (27.9%) of variation and difference in values of the second variable, with support of the null hypothesis by way of the observed for test (T) of (4.730), which indeed exceeded its tabular value, establishing conclusively a fair effect of the first variable on the second one. It should be remembered that this regression curve suffices to explain that relationship with a very high significance to test the validity of the hypothesis that is provided for in the linear regression equation in the following:

$$Y=1.201 + 0.651X$$

The value of the marginal inclination coefficient, β , at (0.651) clearly indicates that with every unit increment in one variable, the second variable is expected to increase by 65.1%. Based on the results in Table 6, β justifies the sentiments mentioned in the second general hypothesis.

3. CONCLUSION

It is clear through the previous theoretical and practical presentation that there is a strong correlation between the two variables of the study, as well as there is a great impact of the adoption of Islamic accounting standards on the eradication of accounting illiteracy, and this pushes towards educating Islamic economic units in the local environment on the importance of adopting these standards, although not obligatory, due to their importance in adding transparency to the accounting information of those units and thus increasing the confidence of their investors and then their ability to compete and attract foreign and internal Islamic investments in particular This stems from enhancing accounting understanding, increasing investors' awareness in those units, correcting ideas and previous learning.

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