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IFRS–Sharia Alignment and the Feasibility of Afghanistan Financial Reporting Standards (AFRS): Evidence from Afghan Stakeholders

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ABSTRACT

The purpose of the study is to examine the feasibility of aligning International Financial Reporting Standards (IFRS) with Sharia financial principles and the potential development of Afghanistan Financial Reporting Standards (AFRS). Grounded in Institutional Theory and accounting harmonization literature, the study examined the influence of the perceived conflict between IFRS and Sharia principles (PCIS), awareness of IFRS (AIFS), understanding of Sharia financial principles (USFP), regulatory support (RS), and institutional readiness (IR) on the IFRS-Sharia alignment feasibility (ISAF) and the feasibility of developing the AFRS (ADF). A quantitative research design based on positivism philosophy was adopted. The primary data were collected through a structured questionnaire. Using purposive sampling, 384 respondents' data were analysed via Stata software. It is found that the perception of conflict between IFRS and Sharia principles has an adverse effect on ISAF, while the awareness and knowledge of IFRS, Sharia financial principles, and institutional readiness have a positive impact on ISAF. Moreover, the IFRS awareness, regulatory cooperation, and institutional readiness have a significant effect on the feasibility of AFRS development. Institutional readiness proves to be one of the most important factors influencing AFRS development feasibility. In conclusion, the research finds that AFRS development as a combined financial reporting system is rather feasible in the context of better institutional capabilities, regulatory cooperation, professional training, and contextual customization of IFRS in the Afghan Islamic environment.

KEYWORDS: IFRS, Sharia accounting, Islamic financial reporting, Afghanistan Financial Reporting Standards, accounting harmonization

1. INTRODUCTION

To increase financial statements' transparency, comparability, accountability, and credibility, International Financial Reporting Standards (IFRS) have emerged as a well-known global financial reporting framework (Ball, 2006). The growing demand for a single accounting language in international capital markets is reflected in the global shift toward IFRS (Nobes & Parker, 2016). Businesses using international accounting standards often report higher accounting quality than those using local standards, according to Barth et al., (2008). Mandatory adoption of IFRS can lower cost of capital and increase market liquidity, as demonstrated by Daske et al., (2008). Adoption of IFRS may boost foreign direct investment by enhancing financial statement comparability, according to Gordon et al. (2012). However, not all institutional settings get the same benefits from adopting IFRS. Inadequate enforcement mechanisms, a shortage of qualified professionals, weak regulatory frameworks, and a lack of accounting education sometimes make the adoption of IFRS challenging in developing countries (Zeghal & Mhedhbi, 2006). Adopting international standards without sufficient institutional support might cause accounting reforms in emerging economies to fail, claim Mir and Rahaman (2005). Local institutional factors have a major impact on IFRS adoption outcomes in developing nations, as reported by Albu et al., (2011). Poor professional preparedness and interpretation challenges impede the successful implementation of IFRS in developing countries, according to Chand et al., (2015). Furthermore, Agana et al., (2023) emphasized that institutional quality plays a crucial role in determining whether or not IFRS adoption improves accounting quality.

The adoption of IFRS becomes more challenging in Islamic financial environments since financial reporting systems must also adhere to Sharia norms. Islamic banking prohibits riba, gharar, and maysir while emphasizing equality, risk sharing, moral responsibility, and social justice (Lewis, 2001). Adnan and Gaffikin (1997) claim that Islamic accountability and conventional accounting may conflict since they are founded on distinct conceptual frameworks. Islamic accounting prioritizes social and religious responsibility over the practicality of financial choices (Hameed, 2000). According to Haniffa and Hudaib (2007), the ethical and Sharia-oriented disclosures mandated by Islamic financial institutions may not be sufficiently captured by conventional reporting systems. Napier (2009) said that Islamic accounting is still influenced by the need to strike a compromise between modern financial reporting practices and religious accountability.

When examining IFRS-Sharia alignment, the Afghanistan situation is very important. This is the example of a mostly Islamic economy, when social norms, legal rules, and economic activity are all heavily influenced by Islamic ideas. However, Afghanistan need strong accounting systems that will enhance institutional responsibility, investor trust, banking regulation, and transparency. The World Bank (2019) states that professional education, regulatory enforcement, and institutional capability in accounting and

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auditing are among the concerns facing Afghanistan. According to recent research, Afghanistan's low financial literacy, insufficient institutional capacity, and subpar accounting systems continue to hinder sound financial decision-making (Nael et al., 2026). Additionally, the International Monetary Fund (2012) mentioned Afghanistan's banking sector difficulties and lack of institutional capability. As a result, financial reporting changes in Afghanistan should be viewed as a complicated matter including the creation of accounting standards, a legal framework, and institutional ability to carry them out.

Despite extensive research on the use of IFRS and Islamic accounting, Afghanistan is still underrepresented in the literature on accounting harmonization. Previous study has focused on the use of IFRS in established economies, bigger emerging nations, or more mature Islamic finance settings like Malaysia, Bahrain, and the Gulf countries (Irvine & Lucas, 2006). The viability of developing localized Afghanistan Financial Reporting Standards (AFRS) or the conformance of IFRS with Sharia financial regulations are not well documented empirically. This distinction is important because Afghanistan needs a reporting system that can balance international comparability, local institutional realities, and Islamic legitimacy.

Thus, this study investigates the viability of creating AFRS in Afghanistan and harmonizing IFRS with Sharia financial rules. It especially looks at how knowledge of IFRS standards, understanding of Sharia financial principles, regulatory backing, institutional preparedness, and perceived conflict between IFRS and Sharia principles impact the viability of IFRS–Sharia alignment and AFRS development. Based on institutional theory, the paper provides policy-relevant suggestions for constructing a financial reporting system suitable for Afghanistan as well as actual evidence on accounting reform in an understudied Islamic emerging economy.

1.1 Research Problem

Despite the widespread use of IFRS worldwide, difficulties arise when applying them in the Islamic environment due to the contradiction of some concepts with Sharia law. At the same time, the development of financial markets, the implementation of international standards, and the need to comply with Islamic standards are particularly relevant problems in Afghanistan. In addition, the insufficient level of institutional infrastructure, regulation, and professional accountancy are also factors that hinder the process. The study aims to assess the compatibility of IFRS with Sharia law, as well as the possibilities for establishing Afghanistan Financial Reporting Standards (AFRS) in the country. However, despite the

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relevance of the issues, there is no research that evaluates the relationship between IFRS and Sharia law, as well as the potential for creating AFRS. The study will contribute to an understanding of the problems of institutional, regulatory, professional, and Sharia alignment of IFRS in the context of Afghanistan.

1.2 Research Questions

The study proposed the following research questions:

- How much do users' perceived conflict between IFRS and Sharia influence the feasibility of IFRS–Sharia alignment and AFRS development in Afghanistan?
- How much do users' awareness of IFRS influence the feasibility of IFRS–Sharia alignment and AFRS development?
- How much do users' understanding of Sharia financial principles influence the feasibility of IFRS–Sharia alignment and AFRS development?
- How much do regulatory supports influence the feasibility of IFRS–Sharia alignment and AFRS development?
- How much does institutional readiness influence the feasibility of IFRS–Sharia alignment and AFRS development?
- To what extent can the development of localized Afghanistan Financial Reporting Standards (AFRS) be achieved in Afghanistan's institutional and Sharia-based financial systems?
- The above research questions were developed based on the conceptual theoretical model presented in the paper.

1.3 Research Objectives

The main purpose of this research is to investigate the feasibility of harmonizing IFRS with Sharia financial principles and developing Afghanistan Financial Reporting Standards (AFRS). In particular, the study will be aimed at:

- Establishing the effect of perceived conflict between IFRS and Sharia principles on the IFRS–Sharia alignment feasibility and AFRS development feasibility.

- Determining the role of awareness of IFRS standards on IFRS–Sharia alignment feasibility and AFRS development feasibility.
- Establishing the effect of understanding of Sharia financial principles on IFRS–Sharia alignment feasibility and AFRS development feasibility.
- Determining the effect of regulatory support on IFRS–Sharia alignment feasibility and AFRS development feasibility.
- Establishing the effect of institutional readiness on IFRS–Sharia alignment feasibility and AFRS development feasibility.
- Assessing the overall feasibility of developing a financial reporting framework that will be compliant with both IFRS and Sharia in Afghanistan.

1.4 Research Hypotheses

Based on the conceptual framework that was developed above, and the relationships between the variables established in the literature review, the paper will test the following hypotheses:

H1: Perceived conflict between IFRS and Sharia principles has a negative influence on the IFRS–Sharia alignment feasibility.

H2: Perceived conflict between IFRS and Sharia principles has a negative influence on AFRS development feasibility.

H3: Awareness of IFRS standards has a positive influence on IFRS–Sharia alignment feasibility.

H4: Awareness of IFRS standards has a positive influence on AFRS development feasibility.

H5: Understanding of Sharia financial principles has a positive influence on IFRS–Sharia alignment feasibility.

H6: Understanding of Sharia financial principles has a positive influence on AFRS development feasibility.

H7: Regulatory support has a positive influence on IFRS–Sharia alignment feasibility.

H8: Regulatory support has a positive influence on AFRS development feasibility.

H9: Institutional readiness has a positive influence on IFRS–Sharia alignment feasibility.

H10: Institutional readiness has a positive influence on AFRS development feasibility.

2. LITERATURE REVIEW

2.1 Institutional Theory

Institutional theory holds that organizational practices and changes are influenced by institutional constraints, societal expectations, and legitimacy needs rather than only technical ones (Meyer & Rowan, 1977). According to DiMaggio and Powell (1983), organizations are molded by normative pressure from professional groups, coercive pressure from internationally recognized standards, and coercive pressure from regulators. These forces sometimes encourage the implementation of IFRS in accounting to boost global legitimacy and financial integration (Judge et al., 2010). The idea is particularly pertinent in Islamic financial contexts, where accounting systems must balance international standards with religious and cultural credibility. Haniffa and Cooke (2005) argued that reporting practices in Islamic communities are significantly influenced by cultural and religious standards, whereas Hameed (2000) emphasized the ethical and Sharia-oriented aspect of Islamic accounting. Both the need to maintain Islamic values and the pressures of globalization have an influence on accounting changes in Afghanistan. Therefore, Institutional Theory provides a useful framework for analyzing how institutional readiness, regulatory support, IFRS knowledge, Sharia comprehension, and perceived conflict affect IFRS–Sharia alignment and the feasibility of AFRS development.

2.2 IFRS–Sharia Alignment and Accounting Harmonization

Due to the globalization and integration of capital markets, accounting harmonization has been a major goal of financial reporting reforms worldwide. International Financial Reporting Standards (IFRS) have been formulated to ensure consistency, transparency, comparability, and reliability in financial reporting (IASB, 2018). According to Ball (2006), the adoption of international accounting standards increases investors' confidence in companies. Moreover, Barth et al. (2008) highlighted that the adoption of IFRS enhances accounting quality and transparency. Further, according to Daske et al. (2008), the adoption of IFRS leads to better market liquidity and less information asymmetry. Nevertheless, achieving accounting harmonization in countries whose institutional, cultural, and religious environment differs from those in the West, where IFRS was designed, is difficult. As observed by Nobes (2013), differences persist in accounting even after adopting IFRS since countries adopt international standards according to their institutional context. Accounting harmonization becomes more difficult in Islamic financial systems since financial reporting structures have to adhere to both international accounting standards and Sharia norms.

Islamic finance forbids interest-based transactions and speculative activity while emphasizing moral responsibility and equality (El-Gamal, 2006). Lewis (2001) asserts that Islamic accounting integrates moral and religious obligations with economic objectives. According to Hameed (2000), Islamic accounting prioritizes social justice and Sharia compliance over generating shareholder profit.

There may be conflicts between certain IFRS concepts and Islamic finance, according to a number of research. For example, Haniffa and Hudaib (2007) noted that although Islamic financial organizations are required to disclose ethical and Sharia concerns, IFRS may not entirely resolve these difficulties. Similarly, Khan (2010) pointed out that IFRS approaches for interest income and financial instruments might lead to incompatibility. However, based on contextual flexibility and extra disclosures, Karim (1995) suggested that IFRS and Islamic accounting principles might coexist and be compatible. Additionally, Archer and Karim (2007) contended that regulation and selective adaptation might lead to harmonization. Due to inadequate institutional infrastructure and professional accounting skills, accounting harmonization becomes much more difficult in poor countries like Afghanistan. Afghanistan's financial reporting, auditing, and accounting education systems have flaws, according to the World Bank (2019). Creating a local framework that can reconcile Sharia and IFRS might be an alternate course of action in certain situations. Therefore, the current study examines how institutional, regulatory, professional, and Sharia-related aspects impact opinions regarding IFRS–Sharia alignment and the feasibility of developing Afghanistan Financial Reporting Standards (AFRS) as a localized hybrid financial reporting system.

2.3 Perceived Conflict Between IFRS and Sharia Principles

The apparent contradiction between Sharia law and IFRS is one of the most controversial subjects in Islamic accounting literature. While conventional accounting rules primarily support investor-oriented financial reporting, Islamic accounting places a higher priority on social justice, Sharia compliance, and ethical accountability (Lewis, 2001). Islamic accounting differs from conventional accounting since it considers social responsibility and religious obligations, according to Hameed (2000). Numerous studies have shown conceptual problems between Islamic financial practices and IFRS. Islamic economic theory may conflict with conventional accounting assumptions, particularly with regard to interest-based transactions, according to Adnan and Gaffikin (1997). In a similar vein, Khan (2010) explained that Sharia regulations that prohibit riba may clash with IFRS procedures for interest recognition and financial instruments.

Additionally, Haniffa and Hudaib (2007) argued that Islamic financial institutions need to make ethical and religious disclosures that are not adequately emphasized in conventional reporting systems.

Empirical research shows that when individuals think that Islamic principles and IFRS are incompatible, there is less support for accounting harmonization. According to study by Hamdi and Zarai (2012), professionals working in Islamic financial environments often feel that regular accounting standards are insufficient for Islamic reporting needs. Similarly, Napier (2009) pointed out that unresolved conceptual discrepancies between Islamic and conventional accounting systems continue to cause operational problems.

In Afghanistan, where Islamic rules have a significant impact on institutional operations, a perceived conflict between IFRS and Sharia principles might erode trust about IFRS–Sharia alignment and the sustainability of AFRS development. Reforms that are perceived as going against social and religious norms are likely to face resistance, according to institutional theory (Scott, 2014). Accordingly, the following hypotheses are proposed:

H_1: Perceived conflict between IFRS and Sharia principles negatively influences IFRS–Sharia alignment feasibility.

H_2: Perceived conflict between IFRS and Sharia principles negatively influences AFRS development feasibility.

2.4 Awareness of IFRS Standards

Awareness and understanding of IFRS standards are critical to the success of accounting reform and financial reporting modernization. Applying IFRS requires technical know-how, professional experience, and familiarity with international accounting standards (Joshi et al., 2016). According to Jackling et al. (2012), accounting education and IFRS-related training have a significant influence on professionals' ability to successfully adopt international reporting standards. Previous research suggests that greater understanding of IFRS might boost support for efforts to harmonize accounting. According to Joshi et al. (2016), accounting experts in developing nations that are more conversant with IFRS have more positive views of accounting reform. Nguyen et al. (2023) state that technical understanding and knowledge of IFRS have a beneficial effect on opinions of the viability of IFRS adoption. The significance of professional expertise in the effective implementation of international accounting standards was also emphasized by Agana et al. (2023). Professional training and accounting education also have an impact on the institutional acceptability of accounting innovations. Gordon et al. (2012) claim that countries with stronger accounting education systems are better prepared to implement IFRS. Similarly, Oyelere and Laswad (2013) found that exposure to IFRS training improves perceptions of accounting harmonization and reporting quality.

Low IFRS awareness often creates barriers to adoption in emerging nations since professionals may reject regulations they do not fully grasp (Chand et al., 2015). In Afghanistan, where professional accounting systems and accounting education are still in their infancy, support for IFRS–Sharia alignment and AFRS development may be significantly impacted by an understanding of IFRS standards. Institutional theory states that the acceptance of institutional innovations is influenced by professional education and training (DiMaggio & Powell, 1983). Accordingly, the following hypotheses are proposed:

H_3: Awareness of IFRS standards positively influences IFRS–Sharia alignment feasibility.

H_4: Awareness of IFRS standards positively influences AFRS development feasibility.

2.5 Understanding of Sharia Financial Principles

Perceptions of Islamic accounting and financial reporting systems are significantly influenced by understanding of Sharia financial principles. Risk sharing, the avoidance of gharar, the prohibition of riba, and ethical accountability are the foundations of Islamic finance (Obaidullah, 2005). Lewis (2001) contended that because Islamic financial systems differ conceptually from conventional systems, application of Islamic accounting frameworks requires a sufficient comprehension of these concepts. Stronger Islamic financial literacy may increase adoption of Islamic accounting and financial procedures, according to earlier research. Understanding Islamic banking concepts has a favorable impact on the acceptance of Islamic financial products, according to Amin et al. (2011). Islamic financial knowledge strengthens support for Sharia-compliant financial structures, according to Antara et al. (2016). Furthermore, some scholars suggested that a better comprehension of Sharia principles should encourage accounting harmonization rather than hostility to IFRS. Karim (1995) states that Islamic financial institutions can alter international accounting standards while adhering to Sharia by using contextual interpretation and extra disclosures. Similarly, Archer and Karim (2007) emphasized that if both systems are adequately understood, IFRS and Islamic accounting principles may be reconciled. Accordingly, the following hypotheses are proposed:

H_5: Understanding of Sharia financial principles positively influences IFRS–Sharia alignment feasibility.

H_6: Understanding of Sharia financial principles positively influences AFRS development feasibility.

2.6 Regulatory Support

Regulatory support is essential to the implementation of IFRS and accounting reform. Regulatory bodies create the legal frameworks, enforcement tactics, and policy directions necessary for effective financial reporting systems (Judge et al., 2010). According to institutional theory, coercive demands from governments and regulators have a significant impact on the implementation of institutional reforms (DiMaggio & Powell, 1983). Previous studies have shown that countries with stronger regulatory frameworks tend to have more successful IFRS implementation. Zeghal and Mhedhbi (2006) found that institutional quality and regulatory effectiveness had a significant impact on the adoption of IFRS in developing countries. Similarly, Daske et al. (2008) argued that countries with strong enforcement systems benefit more from IFRS adoption. Albu et al. (2011) claim that the outcomes of IFRS implementation are significantly influenced by local institutional support. Afghanistan's regulatory institutions still struggle with a lack of institutional capacity and insufficient enforcement measures (World Bank, 2019). In these situations, assistance from lawmakers and financial authorities may have a significant impact on thoughts on the expansion of AFRS and the viability of IFRS-Sharia harmonization. Furthermore, if regulatory agencies support and legitimize reforms, organizations are more likely to adopt them, according to institutional theory (Scott, 2014). Therefore, more regulatory backing might promote confidence in accounting reform and the development of hybrid reporting systems that follow both IFRS and Sharia.

As a result, the following theories are put forth:

H_7: Regulatory support positively influences IFRS–Sharia alignment feasibility.

H_8: Regulatory support positively influences AFRS development feasibility.

2.7 Institutional Readiness

Institutional readiness is the extent to which organizations possess the capacity, resources, knowledge, and assistance needed to carry out changes successfully. Weiner (2009) argued that organizational readiness is a critical component of effective institutional change, whereas Holt et al. (2007) pointed out that preparedness influences willingness and capacity to embrace new systems and practices. According to accounting reform literature, institutional preparedness is thought to have a major impact on the effectiveness of IFRS adoption, particularly in developing countries. According to Albu et al. (2014), local institutional capacities have a major impact on how international accounting standards are applied. In a similar vein, Chand et al. (2015) found that the effective use of IFRS is hampered by insufficient accounting infrastructure and a lack of professional expertise. Furthermore, Joshi et al. (2016) state that the process of accounting reform is adversely affected by the lack of qualified accountants. The effectiveness of account harmonization depends on professional accounting, technology, and educational institutions. For instance, data from the Afghanistan case demonstrates how important institutional preparedness, technology, and professional support systems are to organizational integration and transformation (Zaheer & Sadiq, 2024). While Joshi et al. (2016) found that institutional preparation had a beneficial impact on IFRS adoption, Gordon et al. (2012) claimed that accounting changes are doable with sufficient institutional backing and professional capabilities.

However, there is an issue with institutional preparedness in Afghanistan since accounting and financial reporting systems are still in their infancy. The World Bank (2019) found that there are substantial deficiencies in the fields of accounting education, auditing, and regulation. Furthermore, institutional preparedness facilitates organizational acceptance of new practices, according to institutional theory (Scott, 2014). Therefore, increased institutional readiness will foster confidence in the feasibility of AFRS and IFRS-Sharia.

Accordingly, the following hypotheses are proposed:

H_9: Institutional readiness positively influences IFRS–Sharia alignment feasibility.

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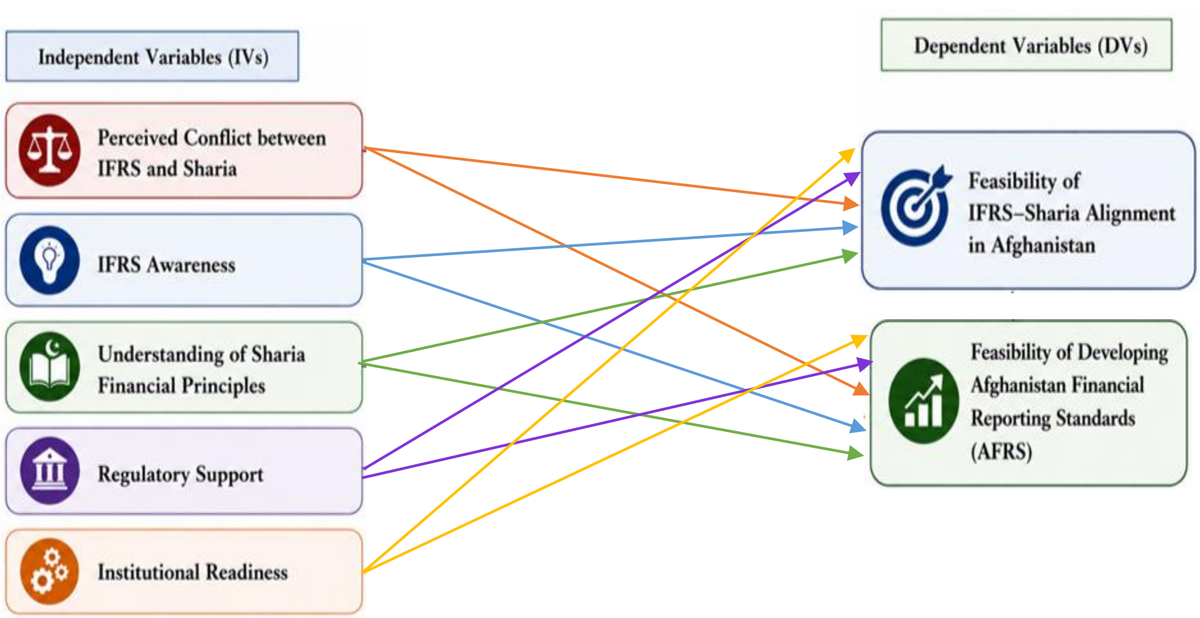
H$_{10}$: Institutional readiness positively influences AFRS development feasibility.

2.8 Conceptual Framework

The conceptual framework of the study is based in Institutional Theory and previous studies on accounting harmonization, IFRS implementation, and Islamic accounting. The framework suggests that perceptions about IFRS-Sharia feasibility and the development of AFRS in Afghanistan are affected by institutional, regulatory, professional, and Sharia-related factors. The independent variables in the framework are PCIS, AIFS, USFP, RS, and IR. The dependent variables are ISAF and ADF. Based on to the conceptual framework, IFRS awareness, Sharia comprehension, regulatory support, and institutional preparedness boost confidence about the viability of IFRS-Sharia and AFRS development, whereas high perceptions of conflict between IFRS and Sharia principles reduce support for accounting harmonization. These connections are justified by institutional theory, which emphasizes how professional pressure, cultural legitimacy, and regulatory factors drive institutional changes in organizations (DiMaggio & Powell, 1983; Scott, 2014).

Figure 1: Conceptual Framework of the Study



Source: *Developed by the researcher based on Literature.*

The conceptual framework of the study, which was created using Institutional Theory and other research on Islamic accounting, IFRS adoption, and accounting harmonization, is depicted in Figure 1. The framework illustrates the suggested connections between the dependent variables—IFRS–Sharia alignment feasibility and AFRS development feasibility within Afghanistan—and the independent variables—perceived conflict between IFRS and Sharia principles, awareness of IFRS standards, comprehension of Sharia financial principles, regulatory support, and institutional readiness. The approach makes the assumption that opinions about the viability of combining Islamic financial principles with international accounting standards in the Afghan financial reporting context are heavily influenced by institutional, regulatory, professional, and Sharia-related variables.

3. METHODOLOGY

The study employed a quantitative methodology based on a positivist research philosophy to examine the relationships between perceived conflict between IFRS and Sharia principles, awareness of IFRS standards, comprehension of Sharia financial principles, regulatory support, institutional readiness, IFRS–Sharia alignment feasibility, and AFRS development feasibility in Afghanistan. A deductive research technique was employed since the hypotheses were predicated on recognized theories and previous studies on the implementation of IFRS, Islamic accounting, and institutional theory. Quantitative methods were deemed appropriate for testing preset hypotheses and analyzing statistical relationships between measurable variables. Data analysis was done using Stata software, and the method was based on earlier studies on Islamic accounting, accounting harmonization, and institutional reform in developing countries.

3.1 Research Philosophy

The study has a positivist research approach since it focuses on using factual data and statistical analysis to investigate objective relationships among measurable factors. When evaluating hypotheses statistically, positivism is commonly used in accounting, finance, and management research (Saunders et al., 2019). The philosophy was considered appropriate because the study aimed to ascertain the effects of perceived conflict between IFRS and Sharia principles, knowledge of IFRS standards, comprehension of Sharia financial principles, regulatory support, and institutional readiness on the viability of IFRS–Sharia alignment and AFRS development within Afghanistan.

3.2 Target Population

The study's target population included academics, regulators, Sharia advisers, auditors, banking professionals, accounting and finance specialists, and Afghan accounting or finance students. These responders were selected because of their relevant knowledge of Islamic finance practices, IFRS, accounting standards, and financial reporting. Accounting, auditing, banking, finance, and financial reporting professionals in Afghanistan were the focus of the study.

3.3 Sampling Technique

Purposive sampling was used because the study needed respondents with particular areas of knowledge and experience in accounting, reporting, IFRS, or Sharia finance. Purposive sampling allows meeting the objective of the study by selecting respondents based on their knowledge, skills, or experience related to the research problem (Zickar & Keith, 2023). Eligible respondents included accounting and finance professionals, auditors, banking experts, researchers, regulators, Sharia advisers, and students majoring in accounting or finance in Afghanistan. Their academic or professional backgrounds had to be relevant to the field of accounting, finance, auditing, banking, IFRS, or Islamic finance, and they all had to have sufficient knowledge of the topic of the study to secure valid and reliable results. Those who did not have academic or professional backgrounds in the area of expertise relevant to the research problem were excluded. Potential participants were screened to ensure that they met the inclusion criteria before sending out the questionnaire. In order to avoid selection bias, respondents were selected from different professional backgrounds and organizations, representing various perspectives on the research problem instead of focusing on one group of individuals. Still, it is noteworthy that the study cannot avoid selection bias in purposive sampling entirely, which should be borne in mind while reviewing the results. The latest guidelines on research methods suggest that non-probability sampling can be used if selection bias is minimized, acknowledged, and controlled during the research process (Boyd et al., 2023).

3.4 Sample Size

Since the exact size of the target population was unknown, the required sample size was determined using Cochran’s (1977) formula for a large or unknown population:

$$n_0 = \frac{Z^2 p(1-p)}{e^2}$$

where n_0 represents the required sample size, Z is the critical value corresponding to the confidence level, p is the estimated population proportion, and e represents the margin of error. A 95% confidence level (Z=1.96) and a 5% margin of error (e=0.05) were adopted as conventional levels of statistical precision. Because no reliable prior estimate of the population proportion was available, p=0.50 was used. This represents the maximum variability assumption and therefore produces the most conservative sample-size estimate. Accordingly:

$$n_0 = \frac{(1.96)^2(0.50)(0.5)}{(0.05)^2} = 384.16 = 384$$

Thus, 384 valid responses were included in the analysis. Participants were obtained through purposive sampling based on the eligibility criteria described in Section 3.3. The sample included academics, regulators, Sharia advisers, auditors, banking professionals, accounting and finance specialists, and accounting or finance students with relevant knowledge or experience. This stakeholder diversity was intended to capture perspectives from the major groups involved in financial reporting, IFRS, and Islamic finance in Afghanistan. However, because purposive sampling is a non-probability technique, statistical representativeness of the entire target population cannot be guaranteed, and the findings should be interpreted accordingly.

3.5 Sources of Data

To collect primary data for the study, a structured questionnaire survey was employed. The questionnaire was distributed to specialists in accounting and finance, auditors, banking professionals, educators, regulators, Sharia advisers, and students studying accounting or finance in Afghanistan. Primary data were deemed suitable since they allowed the researcher to obtain first-hand information about respondents' thoughts about IFRS–Sharia alignment and the possibility of AFRS development.

3.6 Measurement Instrument

The measuring instrument was created by adapting and modifying previously validated scales to fit the Afghan financial reporting scenario. The questionnaire measured perceived conflict between IFRS and Sharia principles (PCIS), knowledge of IFRS standards (AIFS), comprehension of Sharia financial principles (USFP), regulatory support (RS), institutional readiness (IR), IFRS–Sharia alignment feasibility (ISAF), and AFRS development feasibility (ADF).

Each concept was measured using multiple-item surveys on a five-point Likert scale, with 1 denoting "strongly disagree" and 5 denoting "strongly agree." The measuring items were adapted from past studies on Islamic accounting, accounting harmonization, IFRS adoption, and institutional theory. Specifically, PCIS components were adapted from Albu et al. (2014), AIFS from Nguyen et al. (2023), USFP from Antara et al. (2016), RS from Judge et al. (2010), and IR from Weiner (2009). Albu et al. (2014) and Ramanna and Sletten (2014), two works on institutional transformation and accounting harmonization, provided the dependent variables, ISAF and ADF. The questionnaire was divided into two pieces. Section A collected demographic information, whereas Section B contained measurement items related to the research variables. The instrument was carefully reviewed to ensure that it was understandable, relevant, and consistent with the study's objectives. Section A collected demographic information, whereas Section B contained measurement items related to the research variables. The instrument was carefully reviewed to ensure that it was understandable, relevant, and consistent with the study's objectives.

3.7 Regression Model Specification

The relationships between the independent and dependent variables were examined using multiple linear regression analysis. Multiple regression analysis is widely used in accounting and finance research to evaluate the simultaneous effects of several independent factors on dependent variables (Hair et al., 2019). The study developed two regression models based on institutional theory and other research on IFRS adoption, Islamic accounting, and accounting harmonization.

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Model 1: IFRS–Sharia Alignment Feasibility Model

The first model looks at how IFRS–Sharia alignment feasibility (ISAF) is affected by perceived conflict between IFRS and Sharia principles (PCIS), knowledge of IFRS standards (AIFS), comprehension of Sharia financial principles (USFP), regulatory support (RS), and institutional preparedness (IR).

$$ISAF = \beta_0 + \beta_1 PCIS + \beta_2 AIFS + \beta_3 USFP + \beta_4 RS + \beta_5 IR + \varepsilon$$

where ISAF represents the dependent variable of the research, IFRS-Sharia Alignment Feasibility. AIFS refers for Awareness of IFRS Standards, while PCIS means for Perceived Conflict between IFRS and Sharia Principles. β_0 represents the constant factor in the regression model. USFP stands for Understanding of Sharia Financial Principles, RS for Regulatory Support, and IR for Institutional Readiness. Finally, the influence of other elements not included in the model is captured by the error term, denoted by ε.

Model 2: AFRS Development Feasibility Model

The second model looks at how AFRS development feasibility (ADF) is affected by PCIS, AIFS, USFP, RS, and IR.

$$ADF = \beta_0 + \beta_1 PCIS + \beta_2 AIFS + \beta_3 USFP + \beta_4 RS + \beta_5 IR + \varepsilon$$

where the study's dependent variable, AFRS Development Feasibility, is denoted by ADF. AIFS refers for Awareness of IFRS Standards, while PCIS means for Perceived Conflict between IFRS and Sharia Principles. β_0 represents the constant factor in the regression model. USFP stands for Understanding of Sharia Financial Principles, RS for Regulatory Support, and IR for Institutional Readiness. Finally, the influence of additional factors not included in the regression model is captured by the error term, denoted by ε.

3.8 Ethical Considerations

Ethical guidelines were upheld throughout the study process to ensure anonymity, voluntary participation, and preservation of respondent rights. The participants were informed of the academic purpose of the study and assured that their data would be used exclusively for research. At any time during the survey, respondents were permitted to discontinue their participation. Respondents' identities and private information were kept confidential, and the questionnaire was designed to eliminate misleading or harmful content. Ethical research protocols were followed to ensure the study's integrity, dependability, and trustworthiness.

4. RESULT AND DISCUSSION

Table 4.1: Respondent Demographics (n = 384)

Variable	Category	Frequency	Percentage (%)
Gender	Male	330	85.9
	Female	54	14.1
Age	Under 25	67	17.4
	25–34	169	44.0
	35–44	105	27.3
	45 and above	43	11.2
Education	Bachelor	179	46.6
	Master	122	31.8
	Professional Certification	68	17.7
	PhD	15	3.9
Field of Specialization	Accounting	132	34.4
	Finance	105	27.3
	Business Administration	58	15.1
	Sharia / Islamic Finance	36	9.4
	Economics	36	9.4
	Other	17	4.4
Current Position	Accountant	115	29.9
	Finance Manager	56	14.6
	Auditor	50	13.0

	Student	46	12.0
	Academic / Lecturer	42	10.9
	Government / Regulator	35	9.1
	Sharia Advisor / Scholar	16	4.2
	Other	24	6.2
Years of Experience	Less than 2 years	110	28.6
	2–5 years	156	40.6
	6–10 years	82	21.4
	More than 10 years	36	9.4
Type of Organization	Private Company	124	32.3
	Public Sector / Government	65	16.9
	Academic Institution	54	14.1
	Bank / Financial Institution	54	14.1
	Audit / Accounting Firm	43	11.2
	NGO / International Organization	31	8.1
	Other	13	3.4
IFRS Familiarity	Very Low	18	4.7
	Low	58	15.1
	Moderate	143	37.2
	High	127	33.1
	Very High	38	9.9
Sharia Finance Familiarity	Very Low	20	5.2
	Low	35	9.1
	Moderate	150	39.1
	High	127	33.1
	Very High	52	13.5
Practical Experience with IFRS	Yes	248	64.6
	No	136	35.4

Source: *Primary survey data collected by the researchers*

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Note: *N = 384. Percentages may not total exactly 100% in some categories due to rounding. Categories within each demographic variable are mutually exclusive*

Table 4.1 provides the respondent descriptions. The majority of respondents (44.0%) were aged between 25 and 34, while 46.6 and 31.8% hold bachelor's and master's degrees, respectively. Moreover, accounting (34.4%) and finance (27.3%) specializations were the most common ones among the participants. Respondents included accountants, finance managers, auditors, academia, regulators, Sharia advisers, and students working in different organizations and in distinct professional capacities. Besides, 43.0 and 46.6% of respondents stated to be familiar with IFRS at a high and very high level, while Sharia finance knowledge was also high (46.6%) and very high (29.7%). In addition, 64.6% of respondents claimed to have experience with IFRS. Altogether, the sample described above is suitable for the current research since it includes individuals from diverse professional backgrounds and with various levels of knowledge about IFRS and Sharia finance. Nevertheless, it is crucial to note that the sample described above is not fully representative of Afghanistan's population due to the purposive sampling method.

4.2 Reliability Analysis

The internal consistency of the measurement instrument was evaluated using reliability analysis. Cronbach's alpha coefficient, which is frequently employed in quantitative research to assess consistency among scale items, was utilized to assess the study components' reliability (Hair et al., 2019). Cronbach's alpha values of 0.70 or more are often regarded as appropriate for social science research, according to Nunnally and Bernstein (1994). Table 2 displays the reliability findings for every research variable.

Table 4. 2: Internal Consistency Reliability of Study Constructs

Construct	Items	Cronbach's Alpha (α)	Interpretation
Perceived Conflict between IFRS and Sharia (PCIS)	4	0.69	Acceptable for exploratory research
Awareness of IFRS Standards (AIFS)	4	0.76	Acceptable
Understanding of Sharia Financial Principles (USFP)	4	0.76	Acceptable
Regulatory Support (RS)	4	0.79	Acceptable

Institutional Readiness (IR)	4	0.74	Acceptable
IFRS–Sharia Alignment Feasibility (ISAF)	4	0.80	Good
AFRS Development Feasibility (ADF)	4	0.73	Acceptable

Source: *Primary survey data analyzed by the researchers.*

The results of the analysis in table 4.2. demonstrate that the level of internal consistency of all constructs is satisfactory since the alpha coefficients were between 0.69 and 0.80. Thus, ISAF was shown to possess the highest reliability (α = 0.80), followed by RS (α = 0.79), AIFS and USFP (α = 0.76), IR (α = 0.74), and ADF (α = 0.73). PCIS was found to have the lowest reliability score (α = 0.69), which is just one point below the generally accepted threshold of 0.70. Since the result is close to 0.7, there is nothing wrong with the obtained value, and it is even possible to say that for a four-item scale, its reliability is quite satisfactory (Nunnally & Bernstein, 1994; Hair et al., 2019). Therefore, it is possible to conclude that the results of the study possess acceptable internal consistency to proceed with the analysis.

This is a better formulation than you wrote before because, in your previous version of the results section, you claimed that all the constructs had good internal consistency, whereas in reality, PCIS scored barely above the acceptable level of reliability, and therefore it should not be used interchangeably with ISAF that demonstrate alpha of 0.80. Indeed, the results you provided clearly show that PCIS had the lowest reliability score.

4.3: Descriptive Statistics

Table 4.3 below provides descriptive statistics of the study constructs. Each construct was measured on a five-point Likert scale ranging from 1= strongly disagree to 5= strongly agree. The minimum and maximum scale scores for each construct in Table 4.3 below indicate the lowest and highest composite score respectively.

Table 4.3. Descriptive Statistics of Study Constructs (n = 384)

Variable	N	Mean	Std. Dev.	Minimum	Maximum

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IFRS–Sharia Alignment Feasibility (ISAF)	384	3.137	0.775	1.25	5.00
AFRS Development Feasibility (ADF)	384	2.911	0.900	1.00	5.00
Institutional Readiness (IR)	384	2.917	0.814	1.00	4.75
Regulatory Support (RS)	384	2.620	0.960	1.00	5.00
Understanding of Sharia Financial Principles (USFP)	384	3.233	0.828	1.00	5.00
Awareness of IFRS Standards (AIFS)	384	2.839	0.819	1.00	5.00
Perceived Conflict between IFRS and Sharia Principles (PCIS)	384	2.865	0.606	1.40	4.60

Source: *Primary survey data analyzed by the researchers.*
Note: *Constructs were measured on a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. Minimum and maximum values represent observed composite construct scores.*

The descriptive in table 4.3. statistics are moderate for all of the study constructs. USFP had the highest mean (M = 3.233, SD = 0.828), which implies that the participants had a deeper understanding of Sharia financial principles than the other respondents, followed by ISAF (M = 3.137, SD = 0.775). IR (M = 2.917), ADF (M = 2.911), PCIS (M = 2.865), and AIFS (M = 2.839) had a moderate mean, whereas RS recorded the lowest mean (M = 2.620, SD = 0.960). Overall, the descriptive analysis indicates that the participants had moderate perceptions of the institutional, regulatory, and professional conditions for IFRS–Sharia conformance and AFRS in Afghanistan. The values above maintain the exact figures in your manuscript but enhance their readability.

4.4 Correlation Analysis

The strength and direction of correlations between the study variables were examined by correlation analysis utilizing Pearson correlation coefficients. Positive correlation coefficients show positive relationships, while negative correlation coefficients show inverse relationships (Pallant, 2020). Correlation coefficients vary from −1 to +1. Prior to regression analysis, correlation analysis can also be used to find any multicollinearity problems (Hair et al., 2019). The correlation matrix for the variables under study is shown in Table 4.

Table 4.4: Pearson Correlation Matrix of Study Constructs (n = 384)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ISAF	1.000						
(2) ADF	0.043	1.000					
(3) IR	0.210***	0.250***	1.000				
(4) RS	0.186***	−0.055	0.009	1.000			
(5) USFP	−0.015	0.269***	−0.034	−0.076	1.000		
(6) AIFS	0.304***	0.049	−0.043	−0.008	0.025	1.000	
(7) PCIS	0.020	−0.363***	0.026	−0.032	−0.036	0.215***	1.000

Source: *Authors' analysis based on survey data.*
Note: *Pearson correlation coefficients are reported. ***p < 0.001. ISAF = IFRS–Sharia Alignment Feasibility; ADF = AFRS Development Feasibility; IR = Institutional Readiness; RS = Regulatory Support; USFP = Understanding of Sharia Financial Principles; AIFS = Awareness of IFRS Standards; PCIS = Perceived Conflict between IFRS and Sharia Principles.*

The results are represented in Table 4.4. First, there is a positive correlation between ISAF and AIFS ($r = 0.304$, $p < 0.001$), IR ($r = 0.210$, $p < 0.001$), and RS ($r = 0.186$, $p < 0.001$). Second, ADF has a positive correlation with USFP ($r = 0.269$, $p < 0.001$) and IR ($r = 0.250$, $p < 0.001$). There is a negative correlation between PCIS and ADF (p < 0.0010_). In turn, AIF and PCIS have a positive correlation (p < 0.0011_, p < 0.0012_). However, the correlations between the explanatory variables are relatively low (the highest is -0.215), which is below the threshold of 0.80 (see Table 4.4). Thus, it can be concluded that there is a lack of significant pairwise multicollinearity.

4.5 Normality Test

Table 4.5: Skewness–Kurtosis Test of Residual Normality (n = 384)

Variable	Observations	Pr(Skewness)	Pr(Kurtosis)	Adjusted $\chi^2(2)$	Prob > χ^2
Residuals	384	0.429	0.854	0.660	0.718

Source: *Authors' analysis based on survey data.*
Note: *The null hypothesis assumes that the residuals are normally distributed. A p-value greater than 0.05 indicates no statistically significant departure from normality.*

Table 4.5 provides the results of the Skewness–Kurtosis test of residual normality. The joint test was not significant ($\chi^2 = 0.660$, $p = 0.718$). Since the p-value is greater than the 0.05 alpha level, the null hypothesis of normality could not be rejected. Therefore, it was concluded that residuals were not different from a normal distribution, which is necessary for a regression model.

4.6: Test for Heteroskedasticity

Table 4.6: Breusch–Pagan/Cook–Weisberg Test for Heteroskedasticity

Test	χ^2	df	p-value
Breusch–Pagan/Cook–Weisberg	0.740	1	0.390

Source: *Authors' analysis based on survey data.*
Note: *The null hypothesis assumes constant error variance. A p-value greater than 0.05 indicates no statistically significant evidence of heteroskedasticity.*

Table 4.6 reports the results of the Breusch-Pagan/Cook-Weisberg test. The test is insignificant ($\chi^2 = 0.740$, df = 1, p = 0.390). Hence, based on the $p > 0.05$ rule the null hypothesis of homoskedasticity is not rejected. Thus, there was no heteroskedasticity and the regression model's assumptions were met.

4.7: Multicollinearity Test

Table 4.7: Variance Inflation Factor (VIF) Test for Multicollinearity

Variable	VIF	Tolerance (1/VIF)
PCIS	1.053	0.950
AIFS	1.052	0.950
USFP	1.009	0.991
RS	1.007	0.993
IR	1.004	0.996
Mean VIF	1.025	

Source: *Authors' analysis based on survey data.*
Note: *VIF values below 5 indicate no problematic multicollinearity, while tolerance values above 0.10 are considered acceptable (Hair et al., 2019).*

Table 4.7 presents the VIF results for the explanatory variables. All VIF values ranged from 1.004 to 1.053, with a mean VIF of 1.025, which is substantially below the commonly used threshold of 5. The tolerance values were also well above 0.10. These findings indicate no evidence of problematic multicollinearity among the explanatory variables and confirm their suitability for inclusion in the regression models.

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4.8 Regression Analysis and Hypothesis Testing

Multiple linear regression analysis was conducted to assess the impact of Perceived Conflict between IFRS and Sharia Principles (PCIS), Awareness of IFRS Standards (AIFS), Understanding of Sharia Financial Principles (USFP), Regulatory Support (RS), and Institutional Readiness (IR) on IFRS-Sharia Alignment Feasibility (ISAF).

Table 4.8: Multiple Linear Regression Results for IFRS–Sharia Alignment Feasibility (ISAF)

Predictor	Coefficient (B)	Std. Error	t-value	p-value	95% Confidence Interval	Sig.
PCIS	−0.583	0.066	−8.82	<0.001	[−0.713, −0.453]	***
AIFS	0.152	0.049	3.10	0.002	[0.056, 0.248]	***
USFP	0.279	0.047	5.90	<0.001	[0.186, 0.373]	***
RS	−0.047	0.041	−1.14	0.255	[−0.127, 0.034]	
IR	0.304	0.048	6.34	<0.001	[0.210, 0.399]	***
Constant	2.480	0.325	7.62	<0.001	[1.841, 3.120]	***

Model Statistic	Value
Number of observations	384
R^2	0.290
F-statistic	30.846
Prob > F	<0.001
AIC	888.751
BIC	912.455

Source: *Authors' analysis based on survey data.*
Note: *ISAF = IFRS–Sharia Alignment Feasibility; PCIS = Perceived Conflict between IFRS and Sharia Principles; AIFS = Awareness of IFRS Standards; USFP = Understanding of Sharia Financial Principles; RS = Regulatory Support; IR = Institutional Readiness. ***p < 0.01, **p < 0.05, *p < 0.10.*

Table 4.8 below presents the regression analysis results for IFRS-Sharia Alignment Feasibility. The model as a whole was found to be statistically significant ($F = 30.846$, $p < 0.001$) and explained 29.0% of variance in ISAF ($R^2 = 0.290$). PCIS was found to have a significant negative impact on ISAF (B= -0,583 $p < 0.001$), which indicated that the higher the perception of conflict between IFRS and Sharia, the lower the perceived feasibility of their alignment. Therefore, H1 was supported by the findings. AIFS was found to have a significant positive impact on ISAF (B = 0.152, p = 0.002), which supported H3. USFP was found to have a significant positive impact on ISAF (B = 0.279, p < 0.001), which supported H5. Similarly, IR was found to have a significant positive impact on ISAF (B = 0.304, p < 0.001), which supported H9. Finally, RS was found to have an insignificant negative impact on ISAF (B= -0,047 p < 0.0010__), which indicated that it did not play a significant role in influencing ISAF. Therefore, H7 was not supported by the findings. Overall, the results demonstrated that IFRS awareness, Sharia financial knowledge, and institutional readiness positively contributed to IFRS-Sharia alignment feasibility, while the perception of conflict between the two stood as a significant impediment to it.

4.9 Regression Analysis for AFRS Development Feasibility

A second multiple linear regression analysis examined the effects of PCIS, AIFS, USFP, RS and IR on AFRS Development Feasibility (ADF).

Table 4.9: Multiple Linear Regression Results for AFRS Development Feasibility (ADF)

Predictor	Coefficient (B)	Std. Error	t-value	p-value	95% Confidence Interval	Sig.
PCIS	−0.064	0.061	−1.05	0.295	[−0.184, 0.056]	
AIFS	0.308	0.045	6.81	<0.001	[0.219, 0.397]	***
USFP	−0.003	0.044	−0.08	0.936	[−0.090, 0.083]	
RS	0.149	0.038	3.96	<0.001	[0.075, 0.224]	***
IR	0.212	0.044	4.78	<0.001	[0.125, 0.300]	***
Constant	1.446	0.301	4.80	<0.001	[0.854, 2.038]	***

Model Statistic	Value
Number of observations	384
R^2	0.179
F-statistic	16.502
Prob > F	<0.001
AIC	829.222
BIC	852.926

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Source: *Authors' analysis based on survey data.*
Note: *ADF = AFRS Development Feasibility; PCIS = Perceived Conflict between IFRS and Sharia Principles; AIFS = Awareness of IFRS Standards; USFP = Understanding of Sharia Financial Principles; RS = Regulatory Support; IR = Institutional Readiness. ***p < 0.01, **p < 0.05, *p < 0.10.*

Table 4.9 provides the regression results for AFRS Development Feasibility. The overall regression model was statistically significant ($F = 16.502$, $p < 0.001$), explaining 17.9% of variance in ADF ($R^2 = 0.179$). AIFS had a positive effect on ADF ($B = 0.308$, $p < 0.001$), thus supporting H4. RS also positively influenced ADF ($B = 0.149$, $p < 0.001$), with H8 being supported, while IR had a positive effect on ADF as well ($B = 0.212$, $p < 0.001$), supporting H10. By contrast, PCIS had a negative, albeit statistically insignificant, effect on ADF ($B = -0.064$, $p = 0.295$), thus H2 was not supported. Similarly, USFP had an insignificant negative effect on ADF ($B = -0.003$, $p < 0.0010$__), and therefore, H6 was not supported. Overall, the results demonstrate that IFRS awareness, regulatory support, and institutional readiness have a significant impact on AFRS development feasibility in Afghanistan.

Table 4. 10 Summary of Hypotheses Testing

Hypothesis	Proposed Relationship	Expected Direction	Result	Decision
H1	Perceived conflict between IFRS and Sharia principles (PCIS) → IFRS–Sharia alignment feasibility (ISAF)	Negative	$\beta = -0.583$, $p < 0.01$	Supported
H2	Perceived conflict between IFRS and Sharia principles (PCIS) → AFRS development feasibility (ADF)	Negative	$\beta = -0.064$, $p > 0.05$	Not Supported
H3	Awareness of IFRS standards (AIFS) → IFRS–Sharia alignment feasibility (ISAF)	Positive	$\beta = 0.152$, $p < 0.01$	Supported
H4	Awareness of IFRS standards (AIFS) → AFRS development feasibility (ADF)	Positive	$\beta = 0.308$, $p < 0.01$	Supported

H5	Understanding of Sharia financial principles (USFP) → IFRS–Sharia alignment feasibility (ISAF)	Positive	β = 0.279, $p < 0.01$	Supported
H6	Understanding of Sharia financial principles (USFP) → AFRS development feasibility (ADF)	Positive	β = −0.003, $p > 0.05$	Not Supported
H7	Regulatory support (RS) → IFRS–Sharia alignment feasibility (ISAF)	Positive	β = −0.047, $p > 0.05$	Not Supported
H8	Regulatory support (RS) → AFRS development feasibility (ADF)	Positive	β = 0.149, $p < 0.01$	Supported
H9	Institutional readiness (IR) → IFRS–Sharia alignment feasibility (ISAF)	Positive	β = 0.304, $p < 0.01$	Supported
H10	Institutional readiness (IR) → AFRS development feasibility (ADF)	Positive	β = 0.212, $p < 0.01$	Supported

Source: *Regression analysis results generated by the researcher using Stata.*

Table 10 presents the findings of the hypothesis tests based on the regression analysis. It was discovered that seven of the ten proposed hypotheses were validated. The apparent contradiction between IFRS and Sharia principles negatively affected the viability of IFRS–Sharia alignment, although institutional readiness, familiarity with IFRS standards, and understanding of Sharia financial ideas greatly enhanced it. The feasibility of AFRS development was significantly improved by institutional readiness, regulatory support, and familiarity with IFRS standards. Nevertheless, there were no statistically significant associations found in certain models between regulatory support, understanding of Sharia financial concepts, and perceived conflict between IFRS and Sharia principles. Overall, the findings highlight the need of professional expertise, institutional preparedness, and regulatory support for Afghanistan's localized financial reporting reforms and accounting harmonization.

4.10 DISCUSSION

The findings of the analysis reveal the significance of institutional capacity, professional knowledge, and regulatory legitimacy of IFRS in AFRS development, as well as the recognition of IFRS–Sharia conflict as a key impediment of IFRS adoption to reconcile diverse reporting needs of the Islamic financial environment. The findings provide further support to the institutional perspective of accountability reform processes. In particular, recent studies also note strong institutional dependency of IFRS adoption in developing countries (Alhato, 2024).

The findings are of importance to the case of Afghanistan because IFRS has formally been adopted in the financial reporting system of the country, including banks and the majority of firms, with the critical importance of professional knowledge of IFRS to be considered. In particular, the perceived conflicts of IFRS with Sharia emerged as an impediment of IFRS–Sharia reconciliation. As a result, IFRS adoption in the Islamic financial environment of Afghanistan may entail additional legitimacy costs. The findings of this study align with the earlier reports on fundamental differences of Islamic accounting compared to the conventional practices in terms of goals and ethical principles underlying the field, as well as specific application in areas of Sharia-compliant contracts (Hameed, 2000; Haniffa & Hudaib, 2007). In addition, the findings of Biancone et al. (2024) also indicate complex relationships between IFRS and Islamic finance, with issues of Sharia compatibility, governance, contracts (Murabaha and Takaful) being of particular interest to researchers. Notably, the impact of IFRS–Sharia conflicts was found to be insignificant to AFRS development, which implies that Afghan stakeholders may be able to distinguish the challenges of IFRS adoption and local adaptation of international reporting standards. It is argued that professional knowledge enhances legitimacy of IFRS application, which also contributes to the IFRS–Sharia alignment process.

The relevance of professional knowledge emerges as another important determinant of accountability reform. Increased awareness of IFRS was found to be positively related to the support of IFRS–Sharia alignment and AFRS development. Thus, professional knowledge of IFRS may reduce uncertainty in the adoption process, which aligns with the view of Nguyen et al. (2023) and Joshi et al. (2016) on the critical importance of IFRS knowledge and accountant expertise to address the accounting reform process. In particular, for the case of Afghanistan, the level of professional knowledge of IFRS among accountants, auditors, standard setters, regulators, academia, the banking sector, and other stakeholders is of utmost importance for the introduction of any reform, including AFRS development.

In turn, awareness of Sharia financial principles was found to facilitate positive perceptions of IFRS–Sharia alignment, yet it was unrelated to AFRS development. The finding highlights the significance of Sharia-related knowledge for resolving the conflicts of IFRS with Islamic finance and accounting, which is consistent with the findings of Biancone et al. (2024). At the same time, the lack of impact on AFRS development indicates that Sharia expertise may be insufficient to develop a new set of accounting standards. In particular, the process of local adaptation of international standards entails the inclusion of additional regulatory requirements, as well as the building of institutional capacity to implement new reporting standards. Therefore, the finding aligns with the view that IFRS and Islamic accounting standards can be incorporated with the use of complementary guidance, while fundamental differences of the two systems may persist.

Regulatory endorsement was found to be a critical pillar of support for AFRS, while it had no impact on IFRS–Sharia alignment. The finding underscores the view that IFRS–Sharia compatibility is perceived as a professional issue, whereas the creation of AFRS requires institutional-level endorsement. In particular, in the case of Afghanistan, Da Afghanistan Bank has been instrumental in the adoption of IFRS by the business community and the banking sector in particular, which requires close cooperation with regulators to develop banking reporting standards under AFRS. Notably, the process of introducing AFRS also requires addressing the differences between IFRS and Islamic accounting, as well as IFRS reporting requirements of audit firms and other organizations. Thus, the development of AFRS requires institutional coordination on the part of regulators and other stakeholders.

Institutional readiness emerges as a key pillar of support for both IFRS–Sharia alignment and AFRS development. This capacity challenge is specifically manifested in Afghanistan through the continuous outflow of qualified personnel, which threatens to undermine the country's ability to develop and sustain the human capital needed for institutionalization and reforms (Zaheer & Surobi, 2025). The results highlight the importance of institutional capacity for successful accountability reform in Afghanistan. In particular, the stakeholders' responses indicate that institutional resources, including professional expertise, regulatory oversight, training programs, auditing networks, information technology infrastructure, coordination of financial reporting activities, and interpretive frameworks, should be considered in IFRS adoption and AFRS development. The finding is aligned with the view of recent studies on IFRS adoption in developing countries, which emphasize the importance of institutional infrastructure for the successful introduction of international reporting standards. In particular, the study of Nguyen et al. (2023) provides further support for the importance of institutional readiness for IFRS application in the banking sector of Vietnam.

The practical significance of the findings is focused on addressing the key questions of relevance of IFRS adoption in the case of Afghanistan. In particular, the findings of this study contribute to the emerging debate on the need for a context-specific accounting framework that builds on international reporting standards while addressing the local Islamic finance-related legitimacy concerns. This is of importance to the case of Afghanistan, as recent reports on Islamic accounting indicate that full convergence between IFRS and Islamic accounting is unlikely to be achieved, while the hybrid approaches to reconciling the differences between the two accounting systems have been implemented in a number of Islamic financial markets. In addition, unlike the majority of earlier studies, the current research highlights the views of stakeholders in the Islamic financial environment of Afghanistan, which is a deeply conservative Islamic country with limited institutional capacity. Thus, the current study fills a critical gap in the understanding of IFRS adoption and accounting reform in a post-Soviet Islamic economy.

From a policy perspective, the findings may contribute to the development of AFRS as a system that integrates international accounting principles and Sharia-related accounting requirements. In particular, the findings may help develop a gradual approach to AFRS, with international financial reporting standards being applied to the extent possible, while resolving the concerns of Islamic finance stakeholders. Such a strategy would be beneficial for international business, as it would maintain consistency of financial reporting while addressing the legitimacy concerns of investors and other stakeholders. The need for context-sensitive financial reform is also supported by recent evidence from Afghanistan's microfinance sector, which highlights the importance of institutional support, financial capacity, and appropriate policy interventions for strengthening the country's financial system (Assadullah et al., 2026). In particular, the findings may facilitate the development of additional regulatory guidance on IFRS application in the Islamic financial environment of Afghanistan, which would help mitigate the divergence between the reporting requirements of IFRS and Islamic accounting. In addition, the findings may contribute to the development of enhanced IFRS and Islamic accounting education and training programs for accounting professionals in Afghanistan. Finally, the findings may help develop a stepwise implementation of AFRS, which would allow addressing the practical challenges of standard-setting in the Islamic financial environment of Afghanistan, as well as testing the feasibility of introducing AFRS in the banking sector and Islamic financial markets.

In this respect, it is recommended that policymakers consider adopting a multi-stakeholder standard-setting approach to AFRS. The process of standard-setting should include accounting experts, Sharia scholars, financial regulators, accounting auditors, academia, the banking sector, and other interested parties. Particular attention should be paid to the resolution of conflicts between IFRS and Sharia-compliant reporting requirements, as well as the enhancement of IFRS and Islamic accounting education. In addition, AFRS development should be viewed as a long-term institutional reform that involves building institutional and professional capacity, as well as enforcement of regulatory requirements. Thus, the findings may help Afghan policymakers in developing a policy framework that balances the goals of international financial reporting convergence and Sharia compatibility.

5. CONCLUSION

The viability of creating Afghanistan Financial Reporting Standards (AFRS) and the feasibility of International Financial Reporting Standards (IFRS) with Sharia financial principles were examined in this study. The findings indicate that Afghanistan's perceptions of accounting harmonization are influenced by institutional preparedness, professional knowledge, regulatory support, Sharia financial understanding, and perceived contradiction between IFRS and Islamic principles. The results demonstrated that while attitudes about accounting coordination are positively influenced by IFRS awareness, comprehension of Sharia financial principles, and institutional readiness, the feasibility of IFRS–Sharia alignment is adversely affected by perceived conflict between IFRS and Sharia principles. Furthermore, institutional readiness, regulatory support, and IFRS awareness significantly improve perceptions of the viability of AFRS development. These findings demonstrate that in addition to technical issues, accounting reform in Afghanistan has to take institutional legitimacy, religious views, and organizational skills into account.

The study contributes to the body of knowledge on accounting harmonization and Islamic accounting by providing real data from Afghanistan, a context that is currently understudied in IFRS and Islamic finance research. The findings build on Institutional Theory by showing that the adoption of accounting adjustments inside Islamic developing countries depends on achieving a compromise between local religious and institutional realities and international accounting rules. Practically speaking, the findings suggest that politicians and regulators should pursue a gradual hybrid accounting reform plan instead of instantly implementing IFRS without modification. It appears that strengthening institutional capacity, accounting education, professional training, and regulatory frameworks is necessary for the success of accounting modernization. Universities and professional accounting associations should include Islamic accounting concepts and IFRS into accounting curricula and certification programs to improve professional preparation.

The overall results of the study show that the development of AFRS and IFRS–Sharia integration inside Afghanistan is fairly feasible with the appropriate institutional and legal environment. As a result, a localized hybrid reporting framework that is compatible with Afghanistan's Islamic institutional structure may provide a practical way to improve the caliber of financial reporting.

5.1 Recommendations

The study's conclusions include several important recommendations for Afghanistan's lawmakers, authorities, educational institutions, and professional accounting societies. Policymakers should create a progressive and localized accounting reform strategy that integrates relevant IFRS principles with Sharia-compliant financial requirements rather than directly applying international standards without contextual adaption. Regulatory bodies should enhance institutional coordination, legislative frameworks, and enforcement procedures to support the expansion of Afghanistan Financial Reporting Standards (AFRS). Universities and professional accounting groups should expand IFRS and Islamic accounting education, training programs, seminars, and professional certification activities in order to improve technical expertise and institutional preparedness. Financial institutions and organizations should invest in technological systems, staff development programs, and accounting infrastructure in order to facilitate the smooth implementation of future accounting changes.

5.2 Limitations of the Study

Despite its advantages, the study has some drawbacks. First, the study employed a cross-sectional quantitative technique, which may not correctly reflect future institutional or legal changes because it captured respondents' opinions at a certain point in time. Second, the study relied on self-reported questionnaire responses, which are prone to bias and subjective interpretation. Third, the study only examined a small number of professional and institutional factors; it ignored other factors such as political stability, economic conditions, technical infrastructure, and the efficiency of the judicial system. Finally, because the study was conducted in Afghanistan, the findings could not be fully relevant to other Islamic or developing economies with different institutional frameworks.

5.3 Future Research Directions

Future research may be able to get around these limitations by studying accounting reform processes over time using longitudinal or mixed-method techniques. Deeper insights into effective IFRS–Sharia harmonization procedures may be obtained through comparative research including various Islamic economies, such as Malaysia, Bahrain, Pakistan, or Indonesia. The actual implementation issues of AFRS, such as auditing systems, tax laws, disclosure procedures, and organizational adoption procedures, may also be studied by future academics. A more thorough knowledge of the viability of accounting reform in Islamic emerging nations may also result from more research concentrating on larger stakeholder groups, such as investors, regulators, and financial statement users.

5.4 Funding

The research, writing, and publication of this essay were all done without any financial assistance to the author.

5.5 Statement of Data Availability

The accompanying author can provide the data supporting the study's conclusions upon reasonable request.

5.6 Contributions of the Authors

Conceptualization, data collection, data analysis, interpretation of results, and paper writing have all been equally contributed by each author.

5.7 Conflict of Interest

Regarding the publishing of this paper, the authors state that they have no conflicts of interest.

5.8 Ethical Acceptance

The study was carried out in compliance with ethical research guidelines. Respondents were made aware of the goal of the study, and participation in the survey was entirely optional. Participants' identities and confidentiality were preserved during the whole research period.

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