123. **Application of Time Value of Money Principle**

The concept of time value of money refers to the difference in value of money received in cash vis-à-vis the value of money received on deferred basis in future. The difference between cash and deferred price is usually termed as revenue or expenditure of the financing.

In this regard, the SAC was referred to on the issue as to whether the application of time value of money principle in Islamic financial reporting is permissible.

**Resolution**

The SAC, in its 71st meeting dated 26 - 27 October 2007, has resolved that the application of time value of money principle in Islamic financial reporting is permissible only for exchange contracts that involve deferred payment. However, it is strictly prohibited in debt-based transactions (qard).

**Basis of the Ruling**

The aforesaid SAC’s resolution is based on the following considerations:

i. There are discussions by jurists that allow higher deferred selling price as compared to cash selling price\(^{200}\), indicating that time factor may be taken into consideration in determining the selling price.

In addition, Al-Kasani highlighted that any item that is purchased on deferred payment (al-ajl) is not allowed to be sold on murabahah basis unless the potential buyer is informed that the item has been purchased on deferred basis.\(^{201}\)


\(^{201}\) Al-Kasani, *Bada’i al-Sana‘i fi Tartib al-Syara‘i*, Dar Ihya’ al-Turath al-‘Arabi, 2000, v. 4, p. 466:
ii. Al-Sarakhsi also highlighted similar view as follows:

“Certainly something which is deferred is lower in terms of value as compared to something which is on spot.” 202

The above Sarakhsi’s view shows that the present time is higher in value as compared to the future. Thus, pricing in deferred sale should be marked up so as to ensure justice to the contracting parties particularly the seller who has to sacrifice the present consumption of money as the payment is not made in cash.

Al-Kasani explains that if a sale involves deferred payment, such deferment warrants consideration (\textasciitilde iwad) in a form of money by way of price mark-up. However, the permissibility is limited to sale transactions only, while in debt-based transactions (qard), consideration in terms of money is not allowed for the deferment as it would tantamount to riba nasi’ah which refers to money begets money (al-naqd yalid al-naqd).

However, it does not mean that Islam does not recognise time value of money in debt-based contract. This is because deferment in this contract is given consideration in terms of multiple rewards in the Hereafter, in line with its underlying principle of ihsan. On the other hand, sale and purchase contracts which are based on justice principle may accept increase in price due to the deferment.

Apparently, should the principles of ihsan and justice be compared, ihsan would be of higher status than justice given that the former receives great reward in the Hereafter which is better than monetary reward. 203