JURNAL AKUNTANSI & AUDITING INDONESIA

ISSN: 1410-2420

JAAI

Volume 1 No. 1 Mei 1997

Diterbitkan oleh:
Fakultas Ekonomi
UNIVERSITAS ISLAM INDONESIA
Yogyakarta

15

JURNAL AKUNTANSI DAN AUDITING INDONESIA (JAAI)

RUANG LINGKUP

Jurnal Akuntansi dan Auditing Indonesia (JAAI) merupakan jurnal yang diterbitkan untuk memberikan masukan bagi pengembangan pengetahuan di bidang akuntansi dan auditing dalam praktek terutama yang terjadi di Indonesia.

Berbagai artikel yang dimuat dalam jurnal ini dapat berupa kajian tentang teori akuntansi atau auditing, hasil penelitian empirik, maupun kajian mengenai berbagai praktek akuntansi dan auditing dalam lingkup nasional maupun internasional yang ditulis oleh akuntan, auditor, staf pengajar, pelaku ekonomi, maupun para peneliti yang mempunyai hasrat dalam pengembangan bidang akuntansi dan auditing.

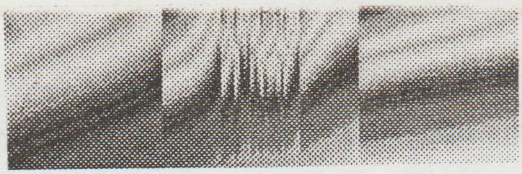
Singkatnya jurnal ini memuat berbagai pemikiran kritis mengenai segala hal yang berhubungan dengan pengembangan di bidang akuntasi dan auditing termasuk di dalamnya dari sektor swasta, publik, maupun pemerintah.

TUJUAN

1. Menyediakan forum khusus untuk publikasi hasil penelitian perilaku, organisasional, dan berbagai aspek sosial akuntansi dan auditing.
2. Untuk menyalurkan berbagai pemikiran baru, penelitian dan berbagai aktivitas yang berhubungan dengan pengembangan dan pemahaman akuntansi dan auditing di Indonesia dan di negara lainnya.
3. Untuk melaporkan hasil penelitian empirik dan studi konseptual mengenai akuntansi dan auditing.
4. Untuk melaporkan berbagai issue aktual dari pengembangan teori, praktek, sosial, dan nilai-nilai yang ada pada akuntansi dan auditing.
5. Untuk mempercepat transfer dari penelitian kepada praktek melalui promosi dialog antara peneliti, akuntan, manajer, auditor, dan para administrator apakah sektor swasta ataukah sektor publik.

urnal Akuntansi & Auditing Indonesia

DAFTAR ISI



Dari Editor

Assalamualaikum warahmatuLlahi wa barakatuh.

Pembaca yang budiman,

Jurnal ilmiah, pada hakekatnya mempunyai beberapa fungsi. Diantaranya adalah sebagai media bagi peneliti untuk mempublikasikan hasil temuannya. Pada waktu yang bersamaan, jurnal juga menjadi media bagi pengamat, pemerhati, mahasiswa dan praktisi sebuah bidang kelimuan untuk mengetahui perkembangan yang sedang atau baru terjadi. Jurnal sangat diperlukan oleh seorang dosen misalnya untuk meng*up-date* ilmunya agar terus mengikuti perkembangan. Jurnal juga akan dicari oleh peneliti dalam rangka melakukan studi pustaka. Oleh karena itu, dapat dikatakan bahwa keberadaan sebuah jurnal, amatlah penting adanya.

Mengamati apa yang terjadi dalam dunia akuntansi di Indonesia, kurangnya jumlah jurnal sebagai jembatan penghubung pihak-pihak yang disebut di atas, merupakan satu titik lemah perkembangan ilmu akuntansi. Jumlah jurnal akuntansi yang ada, dan betul-betul berorientasi ilmiah, sangat terbatas. Oleh karena itu, rasanya banyak hasil riset yang berhenti sekedar sebuah thesis yang tertumpuk dan tak terbaca di ruang-ruang perpustakaan. Sementara banyak pihak juga tidak bisa berlangganan jurnal yang terbit dalam bahasa asing. Di sisi lain, juga sangat tidak mudah bagi kebanyakan peneliti Indonesia untuk mempublikasikan hasil penelitian di jurnal berbahasa asing, selain karena faktor bahasa, juga sangat ketatnya aturan penerimaan sebuah artikel.

Atas dasar pertimbangan itulah antara lain, ide penerbitan Jurnal Akuntansi dan Auditing Indonesia (JAAI) ini muncul. Diharapkan, paling tidak JAAI mampu berkiprah mengurangi jarak yang relatif masih jauh antara dunia praktik dan teori. Sehingga, paling tidak, setapak kemajuan mengejar ketertinggalan dapat diharapkan.

Kami juga sangat bersyukur karena ide ini mendapat tanggapan yang positif dan luas. Appresiasi pertama, rasanya harus dialamatkan kepada Dekan Fakultas Ekonomi Universitas Islam Indonesia, Drs. H. Kumala Hadi, MS, Ak., dan Pembantu Dekan I FE UII, Drs. H. Suwarsono MA, yang serta merta langsung memberikan dukungan penuh atas terbitnya JAAI. Penghargaan setinggi-tingginya juga kami sampaikan kepada berbagai pakar akuntansi dan auditing dari berbagai Universitas di tanah air, seperti Prof. Wahyudi Prakarsa *(Universitas Indonesia)*, Dr. Katjep Abdulkadir *(Universitas Indonesia)*, Dr. Mas'ud Machfoedz, MBA, Ak. *(Universitas Gadjah Mada)*, Dr. Ainun Naim, MBA, Ak. *(Universitas*

Gadjah Mada) Drs. Sukamto, M.Sc. *(Universitas Islam Indonesia)* Dr. Tjiptohadi Sawarjuwono, M.Ec, Ak. *(Universitas Airlangga)*, Dr. Iwan Triyuwono, M.Ec, Ak. *(Universitas Brawijaya)*, Dr. Imam Gozali, M. Com, Ak, *(Universitas Diponegoro)*, dan seluruh kolega dari Fakultas Ekonomi Universitas Islam Indonesia yang sudah menyatakan kesediaannya untuk duduk sebagai anggota dewan editor, atau editorial board.

Kita semua tentu berharap dan berdo'a, semoga kerja sama untuk pengembangan ilmu akuntansi dan auditing di tanah air ini, langgeng adanya, dan berhasil.

Sejauh ini, mengingat berbagai pertimbangan, direncanakan jurnal ini akan terbit tiga kali dalam setahun, yakni setiap bulan **Januari, Mei** dan **September**. Belajar dari pengalaman jurnal yang berkualitas, maka terhadap setiap tulisan yang masuk juga akan dilakukan *blind review*. Seperti sudah diungkapkan di atas, beruntung sejumlah pakar dari berbagai sub bidang keilmuan akuntansi dan auditing, sudah menyatakan kesedian mereka untuk membantu proses *blind review* ini.

Untuk Volume 1 Nomer 1, bulan Mei 1997 ini, kami munculkan lima tulisan, yakni masing-masing dari Dr. Iwan Triyuwono, M.Ec., Ak., Dr. M. Akhyar Adnan, MBA, Ak., Dr. Tjiptohadi Sawarjuwono, M.Ec, Ak., Dra. Neni Meidawati, Ak. Drs. Nur Feriyanto. Belum banyak memang jumlah tulisan yang dapat ditampilkan, selain komposisinya barangkali juga belum seideal yang kami bayangkan. Tetapi, bagaimanapun kita sudah mencoba melangkah. Kami meyakini bahwa kesempurnaan akan didapat lewat proses, dan oleh karenanya memerlukan waktu. Oleh karena itu pula, untuk edisi yang akan datang, tulisan atau artikel yang relevan dengan semangat jurnal ini sangat diharapkan, dari siapapun.

Selamat membaca.

Wassalamualaikum warahmatuLlahi wa barakatuh

M. Akhyar Adnan

THE SHARI'AH, ISLAMIC BANKS AND ACCOUNTING CONCEPTS

By
Muhammad Akhyar Adnan*

Abstract

It is widely questioned recently whether the current [conventional] accounting concepts and practices are Islamicly acceptable. Some papers, thesis and books have been attempting to deal with this regard [eg Abdel-Magid, 1981; Fekrat, 1985; Ahmed, 1990, Gambling and Karim, 1991; to mention but few]. More recently, a special institution which is aimed to establish a particular Islamic banks' accounting standards had been established. However, the issue of accounting and auditing viewed from Islamic perspective is still stimulating to discuss. What have been written by Muslim scholars has not been able to cease the discussion of accounting and auditing from Islamic point of view, nor the issuance of Statement of Financial Accounting by the Financial Accounting Organization for Islamic Banks and Financial Institutions (FAO-IBFI). This paper is seeking to contribute some ideas based on those opinion, either of the Muslim scholars of accounting, or the formal standards published by the FAO-IBFI.

Introduction

In 1992, the Accounting and Auditing Organization for Islamic Bank and Financial Institution (AAO-IBFI)[1] was established. The existence of this organization was clear, that is, to respond the fast increase quantitatively of the Islamic banks and financial institutions around the world. Despite of a great similarity in respect to products or services being offered by those banks and/or financial institutions, there seem to be no uniformity in regard to accounting concepts and practices. Each

* Dosen Tetap Fakultas Ekonomi Universitas Islam Indonesia

[1] It was called initially as the Financial Accounting Organization for Islamic Banks and Financial Institutions (FAO-IBFI).

bank or financial institution follows the accounting standards of the country where it is located. However, many have viewed that the current or conventional accounting cannot be used as it is by the Islamic banks and financial institutions [eg. Adnan, 1996; Karim and Gambling; 199?; Alam, 1991; to mention but few] simply because the conventional accounting are not established or developed on the Islamic values [see eg. Sombart, 1919; Weber, in Andreski,1983].

Some Muslim scholars have attemped to contribute their idea in regard to Islamic accounting [eg. Abdel-Magid, 1981; Fekrat, 1985; Sabri and Jabr, 1985; Al-Rashed et al, 1987; El-Ashker, 1987; Hasyimi, 1987; Haqiqi and Pomeranz, 1987; Badawi, 1988; Ahmed, 1991 and more importantly, the AAO-IBFI has issued some pronoencements the same regard. This paper is aimed to review those views and particulalry the first two pronouncements issued by the Finansial Accounting Standards Board of AAO-IBFI.

Discussion

The foregoing two sections have discussed some opinions of various accounting experts, or those whose concern is accounting in Islamic banks with regard to how Islamic accounting ought to be; and Statements of Financial Accounting Nos. 1 and 2. ('objectives' and 'concepts' of financial accounting) issued by the Financial Accounting Standards Board for Islamic Banks and Financial Institutions. Along with the exposition the author has raised to related opinions previously, the coming paragraphs will attempt to examine thoroughly how accounting concepts ought to be applied to Islamic banks and financial institutions.

It is imperative to disclose clearly the ground that will be used in this scrutiny. Islam is the way of life for every Muslim. Hence, every Muslim has to live in accordance with the guidance provided. In this respect, no Muslim denies that there are two basic sources which should be used as a guideline: the Qur'an and the *Sunnah*. Since the Qur'an was revealed as basic guideline to be used until the end of world's age, it is precise in nature. In other words, it does not provide everything in great detail. Rather it serves the comprehensive principles which Muslims must apply in everyday life. In this respect, Allah says in the Qur'an:

> And We have also sent down unto you (O Muhammad) the reminder and the advice (The Qur'an), that you may explain clearly to men what is sent down to them, and that they may give thought. [16:44].

The most important approach to understanding and interpreting the principles revealed in the Qur'an is the *Sunnah*. It includes the verbal teaching, written medium (dictation to scribes) and practical demonstration of the Prophet Muhammad (peace be upon him) [Azami, 1977, p.9]. The *Sunnah* too is likely to be relatively precise in nature. Although it has elaborated the principles given in the Qur'an, it focuses more on worship practices and to provide some examples of practical life in the age of the Prophet and his companions. Many issues emerge in recent modern life that have not been directly answered by the *Sunnah*. Nevertheless, the *Sunnah* also contains many other more detailed rectitudes which can be referred and interpreted. It is agreed therefore by many Muslim jurists (*Ulama*') that in order to solve a [new] problem which is not indicated directly by the Qur'an or the *Sunnah*, Muslims may utilise their minds which are provided by Allah, because human beings have been entrusted to manage the world [Qur'an 2:30; 6:165; 27:62; 35:39]. In order to do so, beside being given Divine guidance in the form of the Qur'an and *Sunnah*, Allah has favoured human beings by the provision of a very special bounty which has never been given to any other creature in the world, that is, the mind. By utilising the mind, the human beings have been able to do many things, such as to get and develop knowledge,

 ISSN : 1410 - 2420

culture and so forth. No other creature can achieve what mankind has developed.

In this respect, the Muslim jurists mainly agree that, in the case where Muslims find a problem which have no direct detailed guidance either in the Qur'an or the *Sunnah*, they may attempt to perform an *Ijtihad*. Some methods supported by the majority of Muslim jurists and experts are *Ijma* and *Qiyas*. Obviously, any effort of *Ijtihad, Ijma and Qiyas* cannot go beyond the framework of the Qur'an and the *Sunnah*.

In conjunction with the above, at a lower level a framework provided by Ahmad [1980] and Arif [1985a, 1985b] for Islamic economic foundations is also applied as a complement. This includes *Tawhid, Rububiyyah, Khilafah, Tazkiyyah and Mas-u-liyyah*. In addition to this, an opinion which is developed in similar framework would be well considered, if it is relevant.

A major problem with some opinions of Islamic bank accounting concepts and practices raised by various experts previously mentioned, is that of a lack of distinct foundations being utilised in their analysis. Examples may be seen in the works of Abdel-Magid [1981], Fekrat [1985], Sabri and Jabr [1985], Al-Rashed et al [1987], Haqiqi and Pomeranz [1987], El-Askher [1987], Badawi [1988], and Ahmed [1990][2]. It is undeniable that these authors have attempted to relate their analysis to Islamic tenets, but are limited to a confined and fragmentary basis. The major point considered by them seems to be focused merely on the issues surrounding the prohibition of interest. Although the obligation of Zakah has also been alluded to, it was considered more as to its practical accounting manner rather than its philosophical foundation or basic mission.

---

[2] The exception must be addressed to Gambling and Karim [1991] whose analysis is considerably comprehensive and deep. It is similar, although to a lesser extent, to that of Baydoun and Willet [1994].

As a consequence, these authors cannot protect themselves from the influence of capitalist or liberal thought through which Western accounting has developed, and in which those authors had their accounting training initially. This is evident, for example, from the acceptance by many of the main objectives of accounting information reports so as to assist the users in making economic decision. The accounting objective, as it is commonly perceived, is inseparable from accounting concepts, because accounting concepts and all their derivatives emanate from accounting objectives.

Applying the framework mentioned above to an analysis of the first two Statement of Financial Accounting issued by the FASB-IBFI, leads to the same conclusion. The influence of capitalist thought is hard to deny. The evidence, beyond the acceptance of the similar objectives of accounting reports, was also clear when the Committee decided to develop an Islamic accounting promulgation by the second method, as described in SFA No. 1 (Objectives of Financial Accounting), that is to "[s]tart with objectives established in contemporary accounting thought, test them against Islamic Shari'a, accept those that are consistent with Shari'a and reject those that are not." [para 23].

What are accounting objectives for Islamic institutions then, if not to facilitate users making economic decision? It is crucial to answer this question before one is able to develop, or examine, the accounting concepts for Islamic financial Institutions.

To answer this question, one must first look at the Qur'an. Of the many verses of the Qur'an, Allah stated, first[3]: "*And I (Allah) created not the jinns and men except they should worship Me (Alone)*" [51: 56]; "*And they were commanded not, but that they should worship Allah, and worship none but Him Alone (abstaining from ascribing partners to Him), and offer prayers perfectly, and give Zakat, and that is the right religion.*" [98:5]. Secondly: "*O you who*

[3] All these translations are adopted from Al-Hilali and Khan [1993].

believe! Enter perfectly in Islam (by obeying all the rules and regulations of the Islamic religion) and follow not the footsteps of Satan. Verily! He is to you a plain enemy." [2:208]. Thirdly: *"To Allah belongs all that is in the heavens and all that is on the earth, and whether you disclose what is in your own selves or conceal it, Allah will call to account for it . . ."* [2:284, in addition to this verse, a similar essence of statements may be seen in verses 2:107; 3:109,129,189; 4:126,131,132,170; 14:2; 16:77; 20:6; 21:19; 22:64; 24:42; 25:2; 31:26; 34:1: 39:44,63; 42:4,12,49,53; 43:85; 45:27,37; 48:14; 52:31, 57:2,5,10; 85:9]. Fourthly: *And it is He Who has made you generations*[4] *coming after generations, replacing each other on the earth. And He has raised you in ranks, some above others that He may try you in that which He has bestowed on you.* [6:165; Such affirmation may also be found in 2:30; 27:62; 35:39]. Fifthly: *Verily, The hearing, and the sight, and the heart, each of those you will be questioned [by Allah]* [17:36]; *Does man think that he will be left 'Suda' [neglected without being punished or rewarded for the obligatory duties enjoined by His Lord (Allah) on him]?* [75:36].

These few verses of the Qur'an, in the author's point of view, very clearly indicate the answer to the above question. Since the ultimate objective of a Muslim's life is to worship Allah [51:56 and 98:5], Muslims are compelled to devote themselves entirely to the rules of Allah [2:208] and consequently one cannot differentiate between religious and worldly activities[5]. Allah is the genuine owner of everything in the heavens as well as on

---

[4] This word is translated as an 'inheritor' and 'vicegerents' [in 2:30] by *The Presidency of Islamic Researches, IFTA, Call and Guidance*.[1410 H/1990]. It comes from the word 'khalifah' which means successor [Elias, 1972, p. 194].

[5] In this respect, Gambling and Karim [1991, p. 103] have criticised the conceptual framework of accounting currently applied in the West as has been justified on the dichotomy of business and private morality. In a broader sense, it may be interpreted as a separation between religious or faith values and worldly values. In other words, it is an application of the secularism concept.

earth, and human beings are only trustees party [2:284 and many other verses as mentioned previously; 6:165], hence no one but who responsible to Allah during his life on earth [17:36 and 75:36], and therefore it is sufficient to understand what the prime objective of accounting information ought to be. Based on the above clear arguments, the author believes that the primary objective accounting information must be to fulfil an accountability obligation to the real owner, that is, Allah the Almighty.

Allah has made human beings trustees to manage His earth and whatever is provided on and in it. In order to do so, He has also provided the clear principles and guidelines, by which human beings, when they obey them, will live in prosperity. Amongst those principles is the practice of fairness and justice in all aspects of life. One unique approach among these is the payment of Zakah. It is unique, because no such ordinance can be found in any other faith. The importance of Zakah is very obvious since it is decreed in many verses directly after the ordinance of prayer, a very important pillar of Islam.

The orientation of accounting information objectives toward fulfilling the accountability of human beings (in this case Muslim people - *Ummah*) to Allah, the real Owner of everything, has to be manifested in the form of how one can account for his or her Zakah obligation properly. Along with the foregoing arguments, several other reasons can be pointed out. First, Muslims cannot differentiate between a worship activity and a non worship activity. In other words, there is no place for the secularism concept in Islam. Because of that, to place Zakah as the primary objective of accounting information is something very logical from the Islamic point of view. This is also evidenced, for instance, by a five-times declaration pronounced by every Muslim in his or her prayer when he or she says:

"Verily, my prayer, my sacrifice[6]*, my living, and my dying are for Allah, the Lord of the 'Alamin (mankind, jinns and all that exists)"* [6:162]. Secondly, by making zakah the primary objective, one tends to avoid the unwanted practice of cheating or 'window dressing' in any form, because he or she believes that Allah always watches him or her. Nothing can be hidden from Allah. He or she then feels that he or she is basically dealing with the All-knower, the Almighty[7]. Thirdly, as a consequence of the latter condition, accounting information indirectly fulfils its users' needs, as well as its societal responsibility. This particularly relates, for example, to the valuation and measurement aspects. No one will apply a biased method such as the historical cost approach. Fourthly, The fact that may be seen currently from so many parties who have vested interest in using accounting information [in this regard, the Statement, for instance, lists seven parties[8] of accounting information users], leads accounting as a 'battle field' among those who attempt to insist their influence, obviously, in favour to their interest. In Western accounting itself, this has been the object of many criticisms by many [eg. Beaver, 1981; Hendriksen and Breda, 1992].

A determination that accounting objectives must be directed primarily at the purpose of Zakah is indirectly endorsed by Gambling and Karim [1991] and Baydoun and Willett [1994]. Gambling and Karim's suggestion in emphasising the asset-

---

[6] This word is translated by Al-Mahisy [undated, p. 150] as 'any kind of *ibadah* or worship'.

[7] An interesting example may be seen when a Muslim performs his or her fasting worship. Although one is quite sure that no body can sec him or her, he or she will not ever breach any fasting regulations. This is simply because he or she feels that Allah always wacthes him or her. He or she may lie to other persons, but not to Allah.

[8] They are: (a) Equity holders; (b) Holders of investment accounts; (c) Other depositors; (d) Current and Saving account holders; (e) Others who transact business with Islamic banks, who are not equity or account holders; (f) Zakah agencies (in case there is no legal obligation for its payment); (g) Regulatory agencies. [para 26].

liability (or balance-sheet) approach rather than the revenue-expense (or income statement) approach, and an application of CoCoA in asset valuation, is obvious evidence that Zakat should be considered firsts. It is tantamount to Baydoun and Willett's thesis [1994], although they express it differently, that is as social accountability. The substance of their idea is, in fact, to accentuate Zakat as a first priority.

After setting up Zakat as the main objective of accounting information for Islamic institutions, one may inquire about the current objectives of accounting information, such as facilitating the making of economic decisions. The author believes that, as long as those objectives do not violate the Shari'a, they can be put up as secondary objectives. In this respect, no accounting concept, principle or practice must be directed to those secondary objectives, unless it is in accordance with the Shari'a. However, as has been referred to earlier, by setting up accounting for Zakah purposes as the major objective, any other objectives will benefit directly or indirectly, because all information provided is set truthfully in the sense it carries the real value. Therefore there is no need to dispute any other vested interest. It is quite different to the current objectives as, for example, stated in the SFAC No. 1, which objectives have been widely criticised, among others, by Kenneth and Winters [1977], Dopuch and Sunder [1980], Tinker *et al* [1988] and Hendriksen and Breda [1992]

Based on the objectives set out up above, the author will attempt to examine the accounting concepts which are currently applied. Since such concepts are various, the examination will be limited only to those stated in the FAO-IBFI and those applied by the International Accounting Standards. The reason for selecting the latter is because many countries recently begin to apply the IAS, although some modifications in practice are made. However, those concepts mentioned and discussed by the various authors in Section two, will be adequately considered, if they are relevant to objective propounded above .

 ISSN : 1410 - 2420

Since Zakat is applied to the wealth of a Muslim [eg. Qur'an 2:267; 9:103], the most important consequence of this to accounting from the Islamic perspective is an emphasis on the balance sheet, or as Gambling and Karim propounded, an asset-liability approach rather than an income statement or revenue-expense approach. It is different to the current approach undertaken by conventional accounting which places stress on the Income Statement[9].

Anthony and Reece [1983, p. 26] identify five accounting concepts related to the balance sheet. These include money measurement; [business] entity; going concern; [historical] cost; and dual aspect. The other six concepts are associated by Anthony and Reece, more to the Income Statement. These include time period; conservatism; realisation; matching; consistency; and materiality.

Looking at the FAO-IBFI's *Draft Statement of Concept of Financial Accounting for Islamic Banks and Financial Institutions*, and the IASC's *Framework for the Preparation and Presentation of Financial Statement*, neither clearly clarifies the distinction between accounting concepts and qualitative characteristics. Both rather admix them in an obscure manner, hence a certain aspect known generally as an accounting concept (eg. going

---

[9] The author peculiarly queries this when the Income Statement approach seems to be chosen by most of Islamic banks, as well as pronounced by the FAO-IBFI's ED. Whislt looking at the history, the shift to a de-emphasis of the balance-sheet was significantly influenced by the existence of Stock Exchanges [Hendriksen and Breda, 1992, p. 98]. Such a Stock Exchange has not been widely practiced, or even established in the Islamic banking industry. Therefore, the most interested parties to get accounting information from Islamic banks are, perhaps, the shareholders, and to some extent, the depositors. The latter, the author believes, are concern more with the short profit-sharing rates offered by the banks, rather than the comprehensive accounting information normally supplied by the annual Financial Accounting Report.

concern and materiality) may now be named as a qualitative characteristic. However, if the IASC's *Framework for the Preparation and Presentation of Financial Statement* does not entirely mention the notion of accounting concept, the FAO-IBFI's Statement still classifies differently accounting assumptions, concepts and qualitative characteristics, though some indecisiveness cannot be avoided, as has been alluded to earlier.

An understanding of qualitative characteristics may be referred in the following sources. The FASB, as cited by Hendriksen and Breda [1992, p. 123] defines qualitative characteristics as "attributes of accounting information of the broad categories which tend to enhance its usefulness."[10] Such qualitative characteristics, in fact, have been discussed previously in APB Statement No. 4. Looking at this latter Statement, one would understand that qualitative characteristics should be distinguished from what are called by many accounting concepts. The accounting concepts were called 'fundamentals' either by APB Statement No. 4, or the Trueblood Committee [Ibid]. These are defined as "basic concepts underlying the measurement of transactions and events and disclosing them in a manner meaningful to users of accounting information" [Ibid]. Based on this reason, the analysis will be focused on those fundamentals stated directly or acknowledged indirectly, both by the SFA No. 1 and 2, and the IASC's *Framework for the Preparation and Presentation of Financial Statement*. Since the qualitative characteristics are based on different, or more precisely secondary objectives, as argued already, the focus of the examination will not be on them. Instead, attention will be paid

[10] Substantially, a similar understanding of qualitative characterisitcs is also adopted by the SFA No. 1, as may be seen in para 99. It is also in the IASC's *Framework for the Preparation and Presentation of Financial Statement*, though not clearly stated.

mainly to the basic accounting concepts or fundamentals which pertain to the main objective.

The Accounting Unit Concept

This concept is also commonly known as the 'business entity' concept. Among authors who have written on accounting and Islam, perhaps only Gambling and Karim [1991, p. 36] hesitate to accept it. The argument being raised is that such independent legal entities have not been recognised by Islamic jurists, at least in the past. Gambling and Karim's stance is based on the same reason given by Abdullah [1983 in Gambling and Karim, 1991]. However, Gambling and Karim also acknowledge that corporations, as separate legal entities are not unknown in Islamic law. According to them, "some jurists see no objection to the extension of this status quo to trading concerns, if the arrangements conform to the requirements of the Shari'a in other respects." [Ibid]. This latter view was raised particularly by Al-Kayyat [1958 in Gambling and Karim, 1991] who did a *qiyas* (analogising) on the independent financial status of the mosque and the state. He suggests: "It is my view that a company can have such entity, as is the case of a mosque." [Ibid].

Another reason raised in accepting limited liability -- it is one of the consequences among others of the business entity concept -- is that "every business corporation is tantamount to a *Mudaraba* company, where the liability of the owners is limited to the amount of their investment." [Al-Kafeef, 1962; Al-Kayyat, 1983; both in Gambling and Karim, 1991]. This is also supported by Hanbali's school of thought, but is claimed by Gambling and Karim as a minority view.

Ahmed [1990] takes the view that the business entity concept does not conflict with the Shari'a. His argument is based on the examination of the concept upon the principles and rules which govern financial contracts in Islam, as advised by Ibn al A'rabi, which includes (1) prohibition of interest and legitimacy of trade; (2) prohibition of 'unjustified' enrichment; (3) prohibition of 'dubious circumstances' and uncertainty in trade; and (4) giving consideration to intentions and aims *(al-Maqasid)* and to welfare *(Masalih)*. [p. 103-4].

The reasons for the acceptance of this concept by the SFA No. 2, are also referred to by al-Khafeef, al-Kayyat, besides Abdullah. In addition to this, the SFA No. 2 Committee also referred to Para 12, Resolution No. 65/17, Seventh Session of the Council of the Islamic Fiqh Academy, Jeddah, from 9-14 May 1992.

An examination of concept from the main two sources [ie. the Qur'an and the Sunnah] is not possible, since there is no direct reference to it in them. From the author's point of view, an effort in the form of *qiyas*, as it is particularly made by al-Khafeef and al-Kayyat, has also been approved by the Seventh Session of the Council of the Islamic Fiqh Academy, and is sufficiently convincing so that this concept is acceptable and applicable from Islamic point of view.

The Going Concern Concept

Under this concept, an entity is assumed to continue its operations long enough to realise its projects, commitments, and ongoing activities [Belkaoui, 1992, p. 230]. In other words, "it is also often described as 'in the absence of evidence to the contrary, the entity should be viewed as remaining in operation indefinitely.'" [Kenley, 1969, p. 100].

Among those who criticise this concept are Husband [1954], Sterling [1967], Fremgen [1968] and Boritz [1991]. Husband views that for "the business venture is basically an experience entity, the going concern concept or assumption of permanence does not appear to be necessary" [p. 167]. Sterling rejects this concept, arguing that "one 'can *only* assume a continuity of existence' is absurd." [p. 126]. He furthermore states:

> There is a continuing philosophical debate about what one *should* (logically) assume, but we have found no philosopher who prescribes one assumption. Even the most future minded of the philosophers insist on an evidently (historically) based *projection*, not an assumption. The high rate of business failure would make it difficult to build an evidential case for a projection of continuity. No business has ever continued 'indefinitely' into the future. All businesses, except those presently in existence, have ceased operations. Thus, it would seem more reasonable to assume cessation instead of continuity. [Ibid].

Fremgen goes even further. His analysis leads him to conclude [partly cited] that:

> ...the going concern concept assumption has had no important influence on the formulation of accounting principles. Various writers have found it to be consistent with significantly different principles of asset valuations. Official pronouncements on accounting principles have largely ignored the continuity in developing arguments to support their conclusion.
>
> There is no general agreement as to the exact implication of the going concern concept
>
> ... the going concern concept may be a valid description of the accounting entity, if it is justified by evidence in the particular case but not if it is offered as an untested general assumption. Even where it is a valid description of the entity, however, it does not help to formulate meaningful accounting principles. [p. 655-6].

Despite these criticisms, the existence of this concept to date in conventional accounting is evidence that the majority have accepted it as it is.

Among authors in the Islamic accounting field, only Abdel-Magid [1981] rejects this concept, as he argues that "the Islamic model of Mudaraba does not recognise the going concern assumption." [p. 100]. He relates his opinion to asset valuation.

He therefore asserts that the basis for asset valuation and income determination is liquidation or exit values. It is interesting to note that the acceptance of the going concern concept in the SFA No. 2 is also based on the Mudaraba. The Statement states:

> Mudaraba and Musharaka contracts are for specific periods, however, these are assumed to continue until one or all of the parties involved decide to terminate such contracts. Hence, investment accounts managed by an Islamic bank that are based on Mudaraba contracts are assumed to continue until they are terminated by their owners or the bank. Similarly, the concept of Islamic banking is based on Mudaraba contracts, which are assumed to continue until there is evidence to the contrary [para 69].

Comparing the understanding applied to the concept of the going concern with the concept of *Tawhid*, in particular the belief that only Allah, (God) is eternal, or living indefinitely [Qur'an 55:27], and all creatures on and in the earth, including human beings are going to perish [Qur'an 28:88; 55:26], the author believes that the adoption of this concept by Muslims in particular, is courageous in the sense that one deliberately acknowledges that there is something else other than Allah that will live continuously or indefinitely, although stated 'until there is evidence to the contrary.' In Islam, among the characteristic of Allah is that only He lives indefinitely or forever, as is stated in the Qur'an:

> Allah! *La ilaha illa Huwa* (none has the right to be worshiped but He), the ever Living, the One Who sustains and protects all that exist. [3:2][11]

Accordingly, assuming something other than that Allah is equal to His characteristics will lead one to be excluded from Islam. In other words, it is the dismissal of *Tawhid*, which is a very fundamental Islamic tenet.

---

[11] There are some other verses which state the same substance as this verse. These include verses: 2:255, 20:111, 25:58, 40:65, and 55:27.

Apart from the above argument, it is interesting to note the criticisms raised by Sterling and particularly Fremgen as mentioned above. Fremgen concludes that there is no general agreement as to the exact implications of the going concern, and the fact that it does not help to formulate meaningful accounting principles, means that it is odd for Islamic institutions to continue adopting this concept.

The Periodicity Concept

This concept is generally understood to be the way accountants respond to the needs of accounting information users in measuring the periodic income of an entity, either in respect of the accountability aspect, or in relation to planning and decision making. "The significance of the concept lies in the fact that income is relatively easily measured over the full life of the project -- in general, life time income is equal to the cash earned over the life of the project." [Hendriksen and Breda, 1992, p. 147]. Therefore, this concept is justified on the ground that it is almost impossible to wait until the end of a company's life, in order to get the information about the income it earned [Gambling and Karim, 1991, p. 93].

In Islam, there is an ordinance which obliges the rich Muslim to pay zakah[12] on the basis of a yearly period[13]. It is reported that

[12] Zakah, as it has been discussed elsewhere, is a very important concept in Islam. Unlike many other worship activities, it is related both to Allah, as well as to a human being's welfare. It is classified as one of the pillars of Islam.

[13] Obviously there are some other requirements of the zakah obligation, which include that wealth is (1) owned fully; (2) achieveving a certain amount *(nisab)*; (3) growing; (4) exceeding the basic needs; (5) free of debt; and (6) passing a year of possession. Furthermore, it is important to note that there are several types of zakah. Each has its individual conditions. Relatively good and comprehensive discussions of zakah may be seen in *Fiqfuz-Zakat* by Qardawi [1973].

the Prophet Muhammad (peace be upon him) has said: "No Zakah on wealth until a year passes." Based on this ordinance, every Muslim is automatically ordered to calculate his or her wealth once a year, in order to determine the amount of zakah he or she has to pay. Because of this, the periodicity concept seems to have no problems with Islamic law, although it is grounded on a different basis compared to the periodicity concept known in conventional accounting. In this regard, Gambling and Karim [1991 and Ahmed [1990] explicitly state their agreement, whilst other authors reviewed disagree.

The stability of the purchasing power of the monetary unit.

This concept is also often named as a 'monetary expression in the accounts,' [Kenley, 1969] 'the unit-of-measure' [Belkaoui, 1992] or 'monetary unit,' [Hendriksen and Breda, 1992]. Although no one denies that there is no stability in the purchasing power of a monetary unit, it still provides the best measurement unit [Ibid]. That is why to date this concept is accepted by the conventional accounting theory. However, as Belkaoui [1992] and also Hendriksen and Breda [1992] warn, there are at least two basic limitations or constraints to this concept. Firstly, "accounting is limited to the prediction of information expressed in terms of monetary units; it does not record and communicate other relevant but non monetary information." [Belkaoui, 1992, pp. 231-2]. Secondly, is the fact "that the value of monetary units is not stable over time." [Hendriksen and Breda, 1991, p. 149]. Because of this, the usefulness of the information it carries, especially if it's related to the need for comparison and prediction, can no longer be valid. In other words, the relevant aspect that it should be maintained to be useful among information users, may be significantly flawed. Due to these basic limitations, the concept has been the object of continuous and persistent criticism [Belkaoui, 1992, p. 232].

The SFA No. 2, as has been mentioned earlier, also adopts this concept. The Board which is responsible for setting up the

SFAs, seems not to be unaware of the limitations of the concept, as are the Islamic jurists. It is stated in the SFA No. 2:

> There are two schools of thought in Islamic Fiqh with respect to the effect of changes in the purchasing power of money on financial rights and obligations. One school of thought believes that changes in the purchasing power of money should be taken into account when settling financial rights and obligations. The other school of thought believes that changes in the purchasing power of money should be ignored when settling financial rights and obligations [para 79].

The SFA No. 2 eventually adopted the latter school of thought [para 80] without sufficient argument being offered. It seems to the author that the practical and pragmatical considerations played an important role in this matter, although something which is very important in Islam is sacrificed consciously or not, that is, the value of honesty and fairness. In this regard, it is worth noting to observe what Ahmed wrote:

> . . in an inflationary environment money as a unit of measure is questionable from the Islamic viewpoint, for it implies that money is unable to serve as a just and honest unit of account. It makes money an inequitable standard of deferred payments and an untrustworthy store of value, and enables some people to be unfair to others, even though unknowingly. This contradicts Islamic principles, . . . [1991, p. 114].

The approaches to coping with the limitations inherent in monetary unit problems in conventional accounting are various. Among others are an indexation, or monetary correction, replacement cost and current value accounting [Kirkman, 1978]. The first approach has not been accepted by any school of Muslim jurisprudence [Chapra, 1985 as quoted by Ahmed, 1990, p. 115]. Furthermore, all of those approaches are only temporary palliatives rather than a permanent solution to accounting problems in an inflationary or deflationary environment [Ahmed, 1990, p. 115].

The application of gold or silver, for instance, as a measuring unit or currency as was used in the age of the Prophet Muhammad (peace be upon him), are perhaps relatively resistant to inflationary effects. Considering the complexity of the current business environment, such an alternative would not be entirely operable.

The author acknowledges a difficult situation with regard to accepting the stability monetary expression concept. Nevertheless, unlike Ahmed and El-Askher in particular, who conclude that money as a unit-of-measure is accepted from the viewpoint of Islam (despite Ahmed's argument as cited above), the author tends to suggest that essentially this concept must be rejected. Nevertheless, since no one has discovered a satisfactory solution to cope with it, it could be applied in a state of emergency, provided that the remedial methods suggested, albeit temporarily, should be employed. This position is, however, more acceptable from the Islamic point of view. The acceptance of the concept -- which is already recognised as a significant problem, in particular with respect to honesty and justice -- therefore is only possible [because no other alternative so far is available] by an effort to minimise those inherent limitations.

The [Historical] Cost Concept

This concept is referred to in the SFA No. 2 in relation to (1) revaluation of assets, liabilities and restricted investments; and (2) the alternative measurement attributes of the cash equivalent value. Although the acceptance of this alternative was not endorsed by all members of Board, as is stated in para 135, the majority of them were of the opinion that it "is not evident that adequate means are currently available to apply this concept in a manner that is likely to produce reliable information." In other words, according to SFA No. 2, this concept is still acceptable for application to Islamic financial institutions.

Looking at discourses in accounting theory, one finds that the debate with regard to the historical cost concept is one of the most controversial. In fact, the historical cost concept is not a genuine concept in accounting. As is stated by Sterling [1967, p. 114], "[a historical] cost is a derivative of the general principle of conservatism." Conservatism itself is severely attacked by many, eg. Sterling, [1967]; Hendriksen and Breda [1992]; Belkaoui [1992]; to mention but a few. This particular concept will be discussed separately in the coming paragraphs.

To examine a [historical] cost concept from the Islamic perspective, one has to see whether or not the concept violates the values determined by the Islamic tenets. As many have acknowledged -- in line with the limitations inherent in the concept of stability of the purchasing power of the monetary unit, as discussed earlier -- the historical concept may produce erroneous figures, or at least biased information, particularly with respect to valuation. This means that the values of honesty and justice have been infringed. The Qur'an says:

> Verily, Allah commands justice, the doing of good, and giving to kith and kin, and He forbids all indecent deeds, and evil and rebellion . . . [Qur'an 16:90]
>
> Give measure and weight with (full) justice; . . . Whenever ye speak, speak justly, . . . [Qur'an 6:152]
>
> And O my people! give just measure and weight, nor withhold from the people the things that are their due. . . [Qur'an 11:85]

Dearden [1988] describes the accounting function as measuring, and such measure, therefore, from Islamic point of view, has to comply with the above cited requirements. Observing that the implementation of the historical cost concept can be misleading, meaning that it cannot guarantee the quality of justice and honesty within the information it carries, it is obvious then, that such concept has no room in the accounting of Islamic institutions.

It is, perhaps, not easy to cope with the constraints inherent within the historical concept. To date at least three methods have been suggested. These include Current Purchasing Power (CPP); Current Cost Accounting (CCA); Continuously Contemporary Accounting (CoCoA). Among these alternatives, Gambling and Karim [1991] in particular favour a Continuously Contemporary Accounting (CoCoA), which advocated by Chamber [1966], as a very suitable method for Islam. It may not be incidental that Gaffikin [1993, pp. 453] appraises CoCoA as the most theoretically sound method.

Conservatism concept

Belkaoui [1992, p. 246] defines conservatism as "an exception or modifying principle in the sense that it acts as a constraint to the presentation of relevant and reliable accounting data." He furthermore adds that:

> [t]he conservatism principle holds that when choosing among two or more acceptable accounting techniques, some preference is shown for the option that has the least favourable impact on the stockholders' equity. More specifically, the principle implies that preferably lowest values of assets and revenues and the highest values of liabilities and expenses should be reported. [Ibid]

Another implication of this concept is that expenses should be reported sooner rather than later and that revenues should be recognised later rather than sooner. As a consequence, net assets tend to be valued below current exchange prices rather than above them, and income calculation resulting therefrom is likely to be the lowest of several alternatives available [Hendriksen and Breda, 1992, p. 148]. Substantially, the premise held is that pessimism is better than optimism in financial reporting.

Hendriksen and Breda suggest three arguments for conservatism. Firstly, the accountants' tendency toward pessimism is assumed to be necessary to offset the overoptimism of managers and owners; second, the overstatement of profit and valuations is more dangerous for business and its owners than understatement; and thirdly is that the assumption that the accountant has access to much more information than can be communicated to investors and creditors and that the accountant is faced with two types of risk in carrying out an audit.

Despite these arguments, the fact that conservatism results in a distortion of accounting data [Hendriksen and Breda, 1992, p. 149], may lead to a treatment that constitutes a departure from acceptable or theoretical approaches [Belkaoui, 1992, p. 246]; many reject the existence of conservatism. In this regard, for example, Hendriksen and Breda state:

> Conservatism is, at best, *a very poor method* of treating the existence of uncertainty in valuation and income. At its worst, it results in *a complete distortion of accounting data*. The main danger is that, because conservatism is a very crude method, its effects are *capricious*. Therefore, *conservatively reported data are not subject to proper interpretation even by the most informed readers*. Conservatism also *conflicts with the objective to disclose all relevant information,* and with consistency to the extent to which that is a relevant constraint. It can also lead to *a lack of comparability* because there can be no uniform standards for its implementation. The authors believe, therefore, *that conservatism has no place in accounting theory*. [p. 149; emphasis added].

In the same spirit, Sterling [1968] also wrote:

> In terms of measurement-information criteria, it is clear that conservative measurements are not veritable. The final result of a deliberate understatement is deception, no matter how laudable the objective may be. It is clear that the *intent* is to deceive. It is also clear that the desired

> ends of the conservative are commendable, but we disagree with the means they choose to achieve that end. Since verity is a sine qua non of information, we must conclude that conservatism yields, not only zero information, but also, misinformation. [p. 131].

Based on the above discussion, in fact, it is easy to examine the conservatism concept of accounting from the Islamic viewpoint. Without trial it goes directly against the Qur'an or *Sunnah*; what has been argued by Sterling, Belkaoui, Hendriksen and Breda above sufficed to conclude that such concept is not suitable to the Islamic Shari'a.

Looking at SFA Nos. 1 and 2, one will not find a single word on conservatism; however, one should also realise that conservatism has originated a historical cost concept [Sterling, 1968, p. 112]. Furthermore, together with the historical cost concept, conservatism has also rationalised the concept of objectivity, matching and realisation [Gambling and Karim, 1991, p. 92]. The last two mentioned concepts are openly acknowledged by SFA No. 2 [see para 83-6, and para 87], whilst the first is strongly related to the historical cost concept which has been discussed earlier. Logically, for Islamic accounting, those derivated concepts, if not totally abandoned, might only be applied in a very carefully manner, assuming that a state of emergency state exists, where there is no other alternative available.[14]

---

[14] From the Islamic point of view, in certain cases, there is often, if not always a *rukhsoh* or an allowance to do something opposite to the rule, if a state of emergency cannot be avoided. An example is the prohibition of consuming meat [for instance beef, chicken] which is slaughtered without pronoucing the name of Allah. It is [only] allowed in a state of emergency [see Qur'an 6:119]

The Realisation Concept

Among the difficulties of the realisation concept is that the term means different things to different people [Horngren, 1965, p. 325]. However, the general view, according to Hendriksen and Breda [1992, p. 361] was that "realization represented the reporting of revenue when the exchange or outflow of products had occurred." In other words, the realisation concept refers to revenue recognition in the sense of the 'amount' of revenue from a given sale, in contrast to conservatism which suggests the period 'when' revenues should be recognised [Anthony and Reece, 1983, p. 63]. In this regard, SFA No. 2 requires three conditions for realising revenue:

> a. The bank should have the right to receive the revenues. This means that the earning process should be complete or virtually complete. The point at which the earning process is complete may differ for different types of revenues. For example, the earning process for revenues from services is complete when the bank delivers the service; the earning process for revenues from the sale of goods is complete upon delivery of those goods; and the earning process for revenues from allowing others the use of the bank assets (eg. leasing real estate) is completed through the passage of time.
>
> b. There should be an obligation on the part of another party to remit a fixed or determinable amount to the bank.
>
> c. The amount of revenue should be known and should be collectible with reasonable degree, if not already collected. [para 83].

Apart from the Statement of FASB-IBFI as cited above, Ahmed [1990, p. 118] takes the view that realisation may have a problem "as it does not realise fairness for withdrawing depositors." He furthermore states:

> if some of them [depositors] withdraw before the full liquidation of the project in which their funds or parts of them have actually participated, they may lose a part of the profit that might be realised in the future [p. 169].

Nevertheless, Ahmed opts for a compromise solution, considering that the realisation principle is indispensable to guaranteeing the going concern of the entity [Ibid]. The other reason he pointed out was that::

> In Islam, justice is as much required as is the elimination of interest. Should it be necessary to choose between an activity (although containing some injustice) which helps to eliminate interest, and interest, it would probably be preferable to choose to eliminate interest, especially if the injustice contained is minor and the investors themselves understand and accept the situation [1991, p. 170].

The author tends to agree with Ahmed on this point, especially in regard to the latter reason. Moreover, the author does not see that there is another better concept to date, which may alter the realisation concept.

The Matching Concept

The matching principle states that "expenses should be recognised in the same period as the associated revenues; that is, revenues are recognised in a given period according to the revenue principle, and the related expenses are then recognised." [Belkaoui, 1992, p. 240]. Furthermore Belkaoui adds that in terms of capitalisation and allocation, the concept implies an accrual rather than a cash basis accounting [Ibid].

The matching concept, as it has also been acknowledged, is one of among the derivatives of conservatism. As with conservatism, matching has been subject to criticism by many. Since the matching concept requires a great deal of judgment in determining that a given amount of cost is applicable to the future or to the current period, [Kam, 1990, p. 287], Thomas [1969], for example, alleges that the application of the matching concept, particularly with regard to allocations, is arbitrary if not whimsical. Sprouse [1973] on the other hand, claims that the matching process has relegated the balance sheet to a "sheet of balance."

Since conservatism is agreed by many authors [eg. Gambling and Karim, 1991; Ahmed, 1991; even El-Ashker, 1991] as not being suitable to Islam, and by considering the limitations adhering to the matching concept, it is plausible then to evaluate this concept as basically not being suitable to Islam either. It is obvious that the matching concept leads to the preference of the revenue-expense approach rather than the asset-liability approach whilst the latter is advised by Gambling and Karim [1991] as being more acceptable from the Islamic point of view. Adopting what is suggested by Gambling and Karim would automatically solve the problem of the matching concept. This is in line with what Hendriksen and Breda assert:

> If income were reported gradually over the entire operating process of the firm, the measurement of the net assets of the firm would be increased as value was added by the firm. In this case, there would be no necessity for a matching concept [Hendriksen and Breda, 1992, p. 376]

The Objectivity Concept

As with the realisation concept, the concept of objectivity has also been subject to different interpretations [Wolk, et al, 1989,

p. 133; Belkaoui, 1992, p. 242]. For example, Ijiri and Jaedicke [1966, p. 476] say: "objectivity refers to the external reality that is independent of the persons who perceive it." They also assert that an objective measurement is the result of a "consensus among a given group of observers or measurers." [Ibid]. Paton and Littleton [1940, p. 18] on the other hand, take the view that an objective measurement is a verifiable measurement, in the sense that it is based on evidence. Kam [1990, p. 524] views that "terms such as neutrality, impersonality and impartiality denote the same point." While Wolk et al [1989, p. 134] assesses that objectivity is recently labelled verifiability, they point to the example of such words being applied in APB Statement No. 4. A similar thing, according to them, appears in the SFAC No. 2.

The objectivity concept is neither stated explicitly as an independent concept in the SFAs, nor in the ISAC's *Framework for the Preparation and Presentation of Financial Statements (FPPFS)*. However, it is a clear prerequisite in relation to reliability. The SFA in this case mentions it explicitly, whilst the FPPFS includes it implicitly in terms of neutrality. Putting the objective in the context of qualitative characteristics indicates that it is related more to the secondary objectives of accounting information, as the author has already suggested earlier, that is, to facilitate accounting users in making a legitimate economic decisions. Therefore, the objectivity concept is basically not relevant to the main concern of a primary objective, that is, Zakah.

The Accrual Basis Concept

The FASB defines accrual as

> the accounting process of recognizing noncash and circumstances as they occur; specifically, accrual entails recognizing revenues and related increases in assets and expenses and related increases in liabilities for amounts expected to be received or paid, usually in cash, in the future ... [as quoted by Belkaoui, 1992, p. 195]

This concept is not acknowledged by the SFA as a distinct independent concept such as the going concern, nevertheless it is clearly applied, for instance, in revenue and expense recognition [paras 83-4]. On the contrary, the IASC treats it as a distinct independent concept, albeit it terms it as an 'assumption.' It is not clear whether this assumption is deemed more important by the IASC than that of the going concern; hence the accrual basis precedes the going concern in its sequential order.

The accrual basis concept seems to have a very close relationship to the periodicity concept. In other words, it may be said that, among the consequence of the periodicity is that the application of the accrual basis.

Among the ways that might be appropriate in examining whether the accrual basis is suitable or not to the Islamic Shari'a, is to see whether this concept is in line with the objectives of Islamic accounting. As has been alluded to earlier, the author believes that the primary objective of Islamic accounting information is to facilitate the users in computing his or her zakah obligation. For this purpose, as it has also been argued earlier, the need to calculate the real wealth of someone is most important. In order to achieve this, the author also believes that the accrual basis is better than the cash basis. The former concept would provide a true calculation of wealth. Contrary to the cash basis concept, it likely provides an underestimate value of wealth in particular because it is applied primarily on the basis of conservatism concept. This latter concept, as has already been, should not be adopted by Islamic accounting.

Concluding Remarks

The paper has sought to explore various sources of Muslim accountants' opinions, or the views of those who are concerned with accounting from the Islamic perspective. The study shows, despite diverse conceptions among these, that a majority of them see Islamic accounting on a piecemeal basis. As a result, no comprehensive analysis can be found, hence many of their analysies are limited to technical matters of accounting, rather than concerned with substantial or fundamental issues.

Moreover, most of these authors are also significantly influenced by Western accounting thought. Consequently, when they try to suggest accounting concepts from an Islamic point of view, they substantially still adhere to the values inherent in Western accounting philosophy; as a consequence, many view that all conventional or Western accounting concepts can be applied to Islamic banks [eg. Sabri and Jabr, 1985; El-Ashker, 1991]. Should an adjustment be made, it will be limited to the technical, rather than a conceptual issues [eg. Hashimi, 1987]. A moderate view might be inferred from Ahmed [1990] who concludes that some accounting concepts and principles are more desirable than others. An exception to this, perhaps, may be credited to Gambling and Karim [1991], and to some extent Baydoun and Willett [1994]. These latter authors have tried to be more conscious that there is a philosophical difference, and thus have included a discussion of the different methodological approaches in Islamic and Western accounting which they feel needs to be considered.

The paper has also sought to examine the official pronouncements of the Financial Accounting Standard Board for Islamic Financial Institutions, that is, the Statement of Financial Accounting No. 1 and No. 2. The former deals with the accounting objectives, and the latter is concerned with Accounting Concepts. An examination on these two statements shows that the main stream approach, as it is shown above, is also prevalent.

The analysis of the concepts acknowledged by the SFAs and the *Framework for the Preparation and Presentation of Financial Statements* [issued by the IASC] finally indicates that some basic concepts are substantially not suitable to Islam. These include the going concern, stability of the purchasing power of the monetary unit, conservatism and some other concepts derived from it such as [historical] cost, realisation, objectivity and matching.

References

Al-Qur'an al-Kariim

Abdel-Magid, M. F. [1981] "The Theory of Islamic Banking: Accounting Implications," *The International Journal of Accounting Education and Research,* Vol. 17, No. 1, Fall, pp. 79-102.

Ahmad, Khurshid (Ed), [1980], *Studies In Islamic Economics*, International Centre For Research and Islamic Economics King Abdul Aziz University, Jeddah and The Islamic Foundation, U.K.

Ahmed, E. Abdelgader [1990] *Islamic Banking: Distribution of Profit (Case Study)*, Ph. D. Thesis, The University of Hull.

Ahmed, O. B. [1990] *The Contribution of Islamic Banking to Economic Development: The Case of the Sudan*, unpublished Ph. D. Thesis, University of Durham, U.K.

AICPA [1973] "Objectives of Financial Statements," *Report of the Study Group on the Objectives of Financial Statements,* October.

Al-Hamsi, M. Hasan [1983] *Al-Qur'anul Karim, Tafsir Wa Bayan (The Holy Qur'an, Interpretation and Explanation)*, Beirut.

Al-Rashed, A. Z. S. Heakal and A. Al Faisal [1987] "An Approach to Establishing Accounting Standards for Islamic Banks," *Workshop on Accounting Standards for Islamic Banks*, Islamic Development Bank and Islamic Research and Training Institute.

Al-Sadr, B. M. [1986] *Basic Structure of Islamic Economics: Theory and Legal Interpretation*, Beirut.

Anthony, R. N. [1983] *Tell It Like It Was*, Richard D. Irwin, Homewood, Ill.

Anthony, R. N. and J. S. Reece [1983] *Accounting: Text and Cases*, Seventh Edition, Richard D. Irwin, Inc. Homewood, Illinois.

Arif, Muhammad [1985a] "Toward a Definition of Islamic Economics: Some Scientific Considerations," *Journal of Research in Islamic Economics,* Vol. 2. No. 2, pp. 87-103.

Arif, Muhammad [1985b] "Toward the Shari'ah Paradigm of Islamic Economics: The Beginning of a Scientific Revolution," *The American Journal of Islamic Social Science,* Vol. 2 No. 1, pp. 79-98.

Azami, M.M. [1977] *Studies in Hadith Methodology and Literature*, Islamic Teaching Center, American Trust Publication, Indiana.

Badawi, S. T. [1988] "Variation in Accounting Policies and Disclosures of Islamic Banks," *Accounting Standards for Islamic Banks*, Vol. 2. Islamic Development Bank (IDB), Jeddah.

Baydoun, N. and R. Willett [1994] "Islamic Accounting Theory," Paper presented at *The AAANZ Annual Conference*, 3-6 July 1994, Wollongong, Australia.

Beaver, W. H. [1981] *Financial Reporting: An Accounting Revolution*, Prentice-Hall Inc., Engelwood Cliffs, NJ.

Belkaoui, A. [1985] *Accounting Theory,* Second Edition, Harcourt Brace Jovanovich, Publishers. San Diego.

Belkaoui, A. R. [1992] *Accounting Theory,* Third Edition, Academic Press, Harcourt Brace Jovanovich, Publisher, London.

Boritz, J. E. [1991] *The "Going Concern" Assumption: Accounting and Auditing Implications,* Research Report, The Canadian Institute of Chartered Accountants.

Buckley, J. W., P. Kircher and R. L. Mathews [1968] "Methodology in Accounting Theory", in Gibson, Meredith and Peterson (Eds), *Accounting Concepts, Reading* [1971], Cassell Australia.

Chambers, R. J. [1964] "Conventions, Doctrines and Common Sense", *The Accountants' Journal,* Vol. 42, No. 6, February, pp. 182-7.

Chambers, R. J. [1966] *Accounting, Evaluation and Economic Behavior*, Prentice-Hall, Eaglewood Cliffs, New Jersey.

Chambers, R. J. [1970] "Second Thoughts on Continuously Contemporary Accounting," *Abacus*, September, Vol. 6, No. 1, pp. 39-55.

Chambers, R. J. [1980] *Price Variation and Inflation Accounting*, McGraw-Hill Book Co. Sydney.

Dearden, J. [1988] *Management Accounting, Text and Cases,* Prentice-Hall International Edition, Eaglewood Cliffs, NJ.

Dopuch, N. and S. Sunder [1980] "FASB's Statements on Objectives and Elements of Financial Accounting: A Review," *The Accounting Review,* January, pp. 1-21.

El-Ashker, A. Abdel-Fattah [1987] *The Islamic Business Enterprise*, Croom Helm, London.

Elias, E. A. and E. E. Elias [1979] *Modern Dictionary, English-Arabic,* Elias' Modern Publishing House & Co., Cairo.

Fekrat, M. A. [1985] "Islamic Banking: Concepts, Practices, and Implications for Accounting: The Case of Kuwait," *The Recent Accounting and Economic Development in the Middle East,* Center for International Education and Research in Accounting, The Board of Trustees of the University of Illinois.

Financial Accounting Standard Board [1978] "Objectives of Financial Reporting by Business Enterprises," *Statement of Financial Accounting Concept No. 1*, November. (FASB).

Financial Accounting Standard Board [1980] "Qualitative Characteristics of Accounting Information," *Statement of Financial Accounting Concept No. 2*, May (FASB).

ISSN : 1410 - 2420

Financial Accounting Standards Board of the Financial Accounting Organization for Islamic Banks and Financial Institutions [1415H/1994] *Objectives and Concepts of Financial Accounting, General Presentation and Disclosure Standard, and Information about the Organization*. Jumada I / October. FAO-IBFI.

Fremgen, James [1968]. "The Going Concern Assumption: A Critical Appraisal," *The Accounting Review* (October 1968), pp. 49-56.

Gaffikin, M. J. R.[1993] *Principles of Accounting*, Third Edition, Hartcourt Brace Jovanovich, Sydney.

Gambling, T [1974] *Societal Accounting*, Allen & Unwin.

Gambling, T. and Karim, R. A. A.[1991], *Business and Accounting Ethics in Islam*, Mansell, London.

Grady, P.[1965] *Inventory of Generally Accepted Accounting Principles For Business Enterprises*, Accounting Research Study No. 7, AICPA, New York.

Gray, Owen and Maunders [1988] "Corporate Social Reporting: Emerging Trends in Accountability and social Contract," *Accounting, Auditing and Accountability*, Vol. 1, No. 1, pp. 6-20.

Haqiqi, A. W. and F. Pomeranz [1987] "Accounting Needs of Islamic Banking," *Advances in International Accounting, Vol. 1*. Pp. 153 - 168.

Hashimi, F. A. [1987] "The Need and Rationale for Setting up of Accounting Standards for Islamic Banks," *Workshop on Accounting Standards for Islamic Banks*, Islamic Development Bank and Islamic Research and Training Institute.

Hendriksen, E. S. and Michael F. Van Breda [1992], *Accounting Theory*, Fifth Edition, Irwin, Homewood, Illinois.

Hope, T and R. Gray [1982] "Power and Policy Making: The Development of R and D Standard," *Journal of Business Finance and Accounting*, Vol. 19, pp. 531-58.

Horngren, C. T. [1965], "How Should We Interpret the Realisation Concept?" The *Accounting Review*, April, pp. 323-33.

Horngren, C. T. [1973] "The Marketing of Accounting Standards," *Journal of Accountancy*, October, pp. 61-6.

Horngren, C. T. [1981] "Uses and Limitation of a Conceptual Framework," *Journal of Accountancy*, April, pp. 86-95.

Husband, G. R. [1954] "The Entity Concept in Accounting," *The Accounting Review* Vol. XXIX, No. 4, October, pp. 552-63. Reprinted in Gibson, C. J, C. G. Meredith and R. Peterson (Eds.) [1971] *Accounting Concepts, Readings*, Casell, Australia. pp. 156-169.

Ijiri, Y. and R. K. Jaedicke [1966] "Reliability and Objectivity of Accounting Measurement," *The Accounting Review*, July, pp. 473-83.

International Accounting Standards Committee (IASC) [1995] *International Accounting Standards 1995*, IASC. London.

Kam, Vernon [1990] *Accounting Theory*, Second Edition, John Wiley & Sons, New York.

Karim, A. [undated] *The Application of Mudharabah Finance System (Penerapan Sistem Pembiayaan Mudharabah),* BMI internal paper, unpublished.

Karim, R. A. A [1995] "The Nature and Rationale of a Conceptual Framework for Financial Reporting by Islamic Banks," *Accounting and Business Research,* Vol. 25, No. 100, pp. 285-300.

Kelly-Newton, L. [1980] *Accounting Policy Formulation: The Role of Corporate Management*, Addison-Wesley, Mass.

Kenley, W. J. [1969] "The Basic Concepts of Accounting - Their Relevance to Australian Financial Reporting," in Gibson, C. J. et al (Eds) [1971] *Accounting Concepts, Readings*, Cassell., Australia.

Kenneth, S. M. and A. L. Winters [1977] "Focus on Standards Setting: From Trueblood to the FASB," *Journal of Accountancy*, February, pp. 67-75.

Kircher, P. [1965] "Coding Accounting Principles," *The Accounting Review,* Vol. XL, No. 4, October, pp. 742-52.

Kirkman, P. R. A [1978] *Accounting Under Inflationary Conditions,* Second Edition, George Allen & Unwin, London.

Mansoor, M. Hj. [1992] *Konsep Syariah Dalam Bank Islam (The Shariah Concepts in the Islamic Banks),* Bank Islam Malaysia Berhad, Kuala Lumpur.

Moonitz, M. [1961] "The Basic Postulates of Accounting," *Accounting Research Study No. 1*, AICPA, New York.

Paton, W. A. and A. C. Littleton [1940] "An Introduction to Corporate Accounting Standards," *Monograph No. 3*, American Accounting Association, Columbus, Ohio.

Qardawi, Y. [1991] *Hukum Zakat* (Zakat Law), translated from Arabic into Indonesian by Harun, S., D. Hafidhudin and Hasanuddin. PT Pustaka Litera Antar Nusa, Jakarta.

Sabri, N. R. and M. H. Jabr [1985] "Accounting Information Systems for Banks without Interest (Islamic Banks)," *The Recent Accounting and Economic Development in the Middle East,* Center for International Education and Research in Accounting, The Board of Trustees of the University of Illinois, pp. 233-242.

Schroeder, R. G. and Myrtle Clark [1995] *Accounting Theory, Text and Readings*, Fifth Edition, John Wiley & Son, Inc. New York.

Solomon, D. [1978] "The Politicization of Accounting: The Impact of Politics on Accounting Standards," *Journal of Accountancy*, November, pp. 65-72.

Sprouse, R. T. and M. Moonitz [1962] "A Tentative Set of Broad Accounting Principles for Business Enterprise," *Accounting Research Study No. 3*, AICPA, New York.

Stamp, E. [1980] *Corporate Reporting: Its Future Evolution,* Canadian Institute of Chartered Accountants, Toronto.

Sterling, R. R. [1973] "Conservatism: The Fundamental Principles of Valuation in Traditional Accounting", in: S. A. Zeff and T. F. Keller (Eds.), *Financial Accounting Theory,* McGraw-Hill, Inc. N. Y. New Jersey.

Sterling, Robert R. [1968]. "The Going Concern: An Examination," *Accounting Review* (July 1968), pp. 481-502.

The Accounting Standards Steering Committee [1975] *The Corporate Report,* The Institute of Chartered Accountants in England and Wales, London.

The Presidency of Islamic Researches, Ifta, Call and Guidance (Ed.) [1410H] *The Holy Qur'an, English Translation of the Meanings and Commentary,* King Fahd Holy Qur'an Printing Complex, Al-Madinah Al-Munawwarah.

Thomas, A. [1974] Studies in Accounting Research No. 9, *The Allocation Problem,* American Accounting Association.

Thomas, A. [1975] "The FASB and the Allocation Problem," *Journal of Accountancy,* November.

Tinker, T., C. Lehman and M. Neimark [1988] "Marginalizing the Public Interest: A Critical Look at Recent Social Accounting History," *Behavioral Accounting Research: A Critical Analysis,* Edited by Kenneth R. Ferries, Century VII Publishing Company, Ohio, Columbus.

Wolk, H. I., Francis, J. R. and Tearney, M. G. [1989] *Accounting Theory, A Conceptual and Institutional Approach,* Second Edition, PWS-Kent Publishing Company, Boston.