BAB 9

Kerangka Dasar Penyusunan dan Penyajian Laporan Keuangan Bank Syariah dan Standar Akuntansi Keuangan Akuntansi Perbankan Syariah

Ifitah

Kebutuhan akan Standar Akuntansi Perbankan Syariah


Secara garis besar dapat dipilih menjadi dua hal besar, yakni aspek filosofis-konseptual, dan aspek praktis. Keduanya saling terkait secara sangat erat, walaupun dalam batas-batas tertentu dapat dilakukan langkah pragmatis untuk tidak membuat hubungan keduanya menjadi tak terpisahkan sama sekali.

Petika Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) didirikan pertama kali, kondisi ini pula yang barangkali ikut melatarbelakanginya. Sudah bermunculan sejak sekitar tahun 1970an sejumlah institusi keuangan yang tidak hanya berlabelkan Islam (Rumah Sakit Islam, Universitas Islam, dan lain sebagainya) tetapi juga mengakui bahwa mereka sepenuhnya berupaya menerapkan nilai-nilai kebenaran dalam hal keuangan yang sesuai dengan ajaran Islam. Ini - mestinya - membawa konsekuensi bahwa dalam hal akuntansi, lembaga-lembaga tersebut juga menggunakan prinsip syariah, misalnya.


Sejak itulah, lebih kurang ada kegirangan baru untuk mengupayakan adanya akuntansi yang setidaknya lebih Islami. Hal ini sangat diperkuat oleh kenyataan bahwa karena operasi lembaga keuangan Islam berangkat dari nilai-nilai yang berbeda dengan konsep yang dipakai secara konvensional, maka (1) memadai terdapat sejumlah hal yang menjadi questionable dan sekaligus debatable dalam

1 Indonesia justru tertinggal relatif agak jauh, baik dari aspek operasi perbankan syariah dan tentu saja akuntansinya.
konteks sistem operasi syariah, (2) terdapat beberapa keunikan dalam operasi lembaga keuangan Islam yang tidak mungkin diakomodasi sepenuhnya oleh akuntansi konvensional.

Lebih jauh, ketiadaan standar akuntansi syariah berpengaruh pada beberapa hal yang praktis tetapi penting, khususnya bagi sejumlah stakeholders bank syariah sendiri, seperti analisis kinerja manajemen perbankan syariah, kemungkinan komparasi antara satu dan lain bank dan lain sebagainya.

Metode

Persoalan metode, pendekatan atau cara selalu menjadi persoalan yang susah dituntaskan dalam konteks sebuah keilmuan. Karena metode akan berpengaruh sangat signifikan pada capaian atau hasil akhir sebuah proses, dan sekaligus metode biasanya sangat dipengaruhi oleh persepsi, konsep atau pemahaman seseorang. Ini pada gilirannya akan melahirkan preferensi bahkan mungkin fanatisme sampai tingkat tertentu.


Atas dasar ini, maka sesungguhnya metode yang dianut dalam penyusunan konsep dan standar lebih banyak banyak bersandar kepada konsep dan standar akuntansi konvensional yang sudah dikenal, dengan penyesuaian di berbagai bagian yang dipandang belum sejalan dengan pandangan syariah, dan sekaligus penambahan di bagian-bagian tertentu, karena keunikan operasional, dan oleh karenanya tidak terakomodasi oleh akuntansi konvensional.

Untuk Exposure Draft yang saat ini didiskusikan, kondisi ini juga terjadi, karena pada dasarnya acuan utama yang dipakai adalah apa yang sudah dipromulgasikan oleh AAOIFI. AAOIFI sendiri, lewat Sekretaris Jenderalnya, Prof. Dr. Rifaat Abdul Karim, mengampanyekan bahwa apa yang mereka sudah lakukan merupakan acuan yang – mestinya – berlaku umum, dan oleh karenanya ‘harus’ diimplementasikan oleh seluruh lembaga keuangan Islam dimanapun berada.
Untuk Indonesia, sekali lagi timbul perdebatan apakah 'seruan' AAOIFI harus diterima begitu saja, atau harus 'disesuaikan', dengan keunikan kondisi Indonesia. Sekali lagi, kenyataan menunjukkan bahwa 'diperlukan' sejumlah penyesuaian untuk dapat menerapkan standar yang sudah disusun oleh AAOIFI Indonesia, karena sudah mempunyai KDPPLK yang seratus prosen mengadopsi apa yang dijadikan standar oleh International Accounting Standards Committee (IASC).

Output


Keberadaan dan peran KDPPLK-BS lebih kurang sama dengan KDPPLK yang selama ini ada dalam konteks akuntansi konvensional. Persamaan ini, terlihat jelas dari struktur dan format, dan sebagian [besar] isinya. Perbedaannya lebih terletak pada penambahan beberapa bagian, mulai dari tujuan, akuntansi keuangan, tujuan laporan keuangan, asumsi dasar dan unsur laporan keuangan seperti ekuitas pemilik, laporan perubahan investasi terikat, laporan sumber dan penggunaan dana Zakat Infaq Shadaqah serta laporan sumber dan penggunaan dana *qardhul hasan*.

Jika dicermati, posisi yang diambil adalah 'perpaduan' antara KDPPLK yang sudah dianut sejak tahun 1994 dengan *Statements of Financial Accounting* yang perannya lebih kurang sebagai *statements of financial accounting concept*.

ED kedua, yakni PSAK Akuntansi Perbankan Syariah (APS) memang bersifat unik, dan lebih menggambarkan keunikan operasi perbankan syariah yang relatif jauh berbeda dengan operasi perbankan konvensional. Namun, sebagai sebuah standar, tetap saja struktur yang dipakai sangat mirip, yakni meliputi beberapa aspek tertentu, seperti pengertian dan/atau karakteristik pengakuan dan pengukuran, penyajian dan pengukuran.

Seperti diungkapkan di atas, perbedaan yang muncul pada PSAK APS ini lebih diakibatkan oleh keunikan operasi perbankan syariah. Oleh karena itu, seluruh aspek mendasar di atas (definisi, pengakuan, pengukuran, penyajian dan pengukuran) coba menjelaskan berbagai bentuk operasi yang sudah dikenal dalam sistem perbankan syariah, mulai dari *wadiah, murabaha, mudharabah, musyarakah, sharf, ijarah*, salam dan paralel salam, istisna dan paralel istisna kegiatan bank berbasisan imbalan, zakat dan *qardhul hasan*.

Satu perbedaan menarik lainnya dalam penyajian laporan keuangan perbankan syariah adalah bahwa komponen yang disajikan menjadi lebih banyak...
dibandingkan dengan apa yang selama ini dikenal dalam laporan keuangan konvensional. Bila perbandingkan, maka terlihat seperti tabel di bawah ini:

<table>
<thead>
<tr>
<th>Unsur-Unsur Laporan Keuangan Lembaga</th>
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<tr>
<td>Keuangan Syariah</td>
<td>Keuangan Konvensional</td>
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<td>Neraca</td>
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<td>Laporan Laba Rugi</td>
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<td>Laporan Arus Kas</td>
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<td>Laporan Perubahan Dana Investasi Terkait</td>
<td>Laporan Arus Kas</td>
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<td>Laporan Sumber dan Penggunaan Dana Zakat,</td>
<td>\textit{Imsak} \textit{dan} \textit{Shadaqoh}</td>
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<td>Laporan Sumber dan Penggunaan Dana Cendhul Hasan</td>
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</tbody>
</table>

Sumber: ED PSAK APS [2001]  Sumber: PSAK #1 [1999]

Catatan Penutup

Seperti diungkapkan pada iftitah di atas, bahwa makalah ini disusun sebagai pengantar untuk diskusi dan dengar pendapat tentang dua ED yang baru saja dikeluarkan oleh DSAK IAI. Tidak ada intensi yang terlalu jauh untuk melakukan analisis yang mendalam, karena dua alasan: (1) posisi penulis yang kebetulan terlibat sebagai anggota dewan pengarah; dan (2) waktu yang relatif terbatas, dan tujuan utama yang lebih kepada sosialisasi.

Namun demikian, penulis menyambut baik segala bentuk kritik yang pada akhirnya dapat menyempurnakan kedua draft ini, sebelum keduaanya diimplementasikan dalam realitas kehidupan perbankan syariah di tanah air. Buktanya memang hal ini [menerima kritik dan komentar berbagai pihak terkait] menjadi salah satu tujuan utama sebuah acara \textit{public hearing} atau dengar pendapat ini?

Wallahu a’lam bisshawab.

Daftar Rujukan


THE ISLAMIC PERSPECTIVE ON ACCOUNTING

Introduction

O ye who believe! when ye deal with each other, in transactions involving debts obligations in a fixed period of time, reduce them to writing. Let a scribe write down faithfully as between the parties: let not the scribe refuse to write: as Allah has taught him, so let him write. Let him who incurs the liability dictate, but let him fear Allah his Lord and not diminish aught of what he owes.... Disdain not to reduce to writing (your contract) for a future period, whether it be small or big; It is juster in sight of Allah, more suitable as evidence, and more convenient to prevent doubts among yourselves, ... But take witness whenever ye make a commercial contract; and let neither scribe nor witness suffer harm. If ye do (such harm), it would be wickedness in you. [Qur'an 2:282].

And O my people! Give full measure and weight in justice and reduce not the things that are due to other people, and do not commit mischief in the land, causing corruption [Qur'an 11:85].

This paper is aimed at examining the accounting concepts which are considered suitable for Islamic banks in particular and other Islamic financial insti
tutions in general. A discussion will be developed broadly on the basis of the Shari’ah or Islamic law in economics. This paper is aimed at being a specific discussion of accounting concepts and practices that may be adopted by banks which claim to operate under Islamic Law.

The paper is organised as follows. After an Introduction in the first section, it is followed by Section Two entitled Muslim Scholars’ Views on Conventional Accounting Concepts. Various views offered by Muslim accountants and/or researchers with regard to accounting concepts or practices supposedly to be applied by Islamic banks are discussed and examined. Section Three continues to overview the conceptual framework of accounting for an Islamic financial institution version recently published, that is the Statement of Financial Accounting. Attention will be paid mainly to the first two series of Statement of Financial Accounting, namely, the objectives of accounting, and concepts of financial accounting for Islamic financial institutions. In the section following, an examination is conducted of accounting concepts, either discussed by those Muslim authors, or officially stated in the Statement of Financial Accounting No. 1 and 2. This examination is extended, to some extent, to the particular concepts proposed by the International Accounting Standards Committee. This is simply because the latter’s standards are used or going to be used widely by countries where some Islamic banks or Financial Institutions operate. Finally, Section Five closes with a concluding remark.

Muslim Scholars’ Views on Conventional Accounting Concepts and Practices

An attempt at analyzing the compatibility of the conventional accounting concepts or postulates to Islamic Shariah, to some extent, has been done by Ahmed [1990]. Although he recognizes the diversity of terminologies applied in naming such concepts, postulates, assumptions, conventions and such, he prefers to apply the terms “postulate” and “principle”. He terms ‘the entity; going-concern; accounting period and unit-of-measure’ as “postulates”, and the “principles” as: ‘objectivity; matching, consistency; uniformity and comparability; cost; realization; and full disclosure.’ However, he fails to explain the reasons for his preferences, or the logic used for his calling some of those postulates and others principles1.

Of those postulates reviewed, Ahmed concludes that none is claimed to contradict the Islamic viewpoint. In other words, all of those can be accepted, albeit some notes are important to be taken. First, the ‘going concern’ postulate

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1 The author observes that Ahmed tends to follow, although not exactly, Belkaoui’s approach in his text book [1985].
has originated in the conservatism principle [p. 111]. The conservatism principle itself is claimed not to be compatible with Islamic principles and rules [p. 112]. Some incongruity seems to appear in this sense. Secondly, the accounting period postulate has generated an accrual concept which entails the assignment of revenue to the fiscal year in which it was earned rather than to that in which it was received. This implies two further things: first, in relation to the payment of zakat, the company may pay the zakat for wealth not yet received. According to the Maliki school of thought, loans [this may include unearned revenues] are exempted from zakat. [Malik ibn Anas, 1985, as quoted by Ahmed]. Secondly, with regard to profit distribution, particularly in the practices of Mudharabah in some Islamic Banks, the concept of accrual accounting [for revenue recognition] is adjusted to cash basis accounting. Among the reasons raised, ironically, is conservatism and prudent practice.

With respect to ‘accounting principles’, Ahmed concludes that they “are generally accepted for fairness accounting for Islamic banks” [p. 120]. He furthermore asserts:

*Although Islamic banks operate in a different way from conventional banks, that does not mean that they are totally different financial institutions which need entirely different accounting.* [Ibid].

...the Islamic approach is very near to the Western approach in so far as the application of accounting conventions and principles is concerned. Accounting postulates of monetary measurement, going concern, realisation; accounting concepts of the business entity, objectivity, fairness, consistency, materiality, conservatism or prudence, and disclosure; and accounting principles of matching, cost and dual aspects, all apply to the Islamic approach. [p. 199].

El-Askher’s view seems to be ambiguous and lacks critical judgment. For example, he says that conservatism is not accepted by Islam [p. 200, see footnote #3], but, as quoted above, such concept, according to him, can be applied to Islam. Furthermore, he neglects to consider that conservatism justifies the historical cost concept, which in turn rationalises the objectivity, matching and realisation [Gambling and Karim, 1991; further discussion regarding this follows in the next coming paragraphs]. Based on this, it is hard to accept his thesis.

With respect to the development of accounting standards of Islamic banks, Haseqi and Pomeranz [1987, p. 166] contribute something else. Amongst their recommendations pertaining to accounting principles of Islamic banks, the most important and closely related to the issue discussed in this study is their view that the focus [of accounting in Islamic banks] should be on substance and not on form. In this regard they state:
The authors believe that the effort should not bog down in undue detail, but should be oriented toward the attainment of objectives consistent with Shariah. The scope should be broad; rulemaking should include the nature of disclosures, together with account contents, data sources, and descriptions." [p. 166].

Haqiqi and Pomeranz’s view seems to contribute very little and is too vague in nature. They still regard accounting of Islamic banks partially. Obviously, it is not sufficient. Moreover, their opinion should be questioned, particularly when they suggest that accounting of Islamic banks must “[a]ccord weight to Islamic and Arab requirements.” [p. 167]. It is implausible and a serious fault to equalise Islamic requirements and Arab requirements. Because Islamic is not Arabic, or vice-versa.

Accounting problems associated with Islamic modes of financing are related to two groups of product. The first group consists of Murabaha and Leasing, and the second group consists of Mudharabah and Musharakah. This view is suggested by Hashimi [1987]. To him, “these elements would tend to negate the fundamental accounting concept of accrual accounting and suggest the need for alternate revenue recognition guidelines.” [p. 11]. In addition, he asserts that it would be necessary to view business transactions in terms of their economic substance rather than their legal form [p. 13]. On this point, Hashimi’s view is similar to that suggested by Haqiqi and Pomeranz [1987], as has been pertained to earlier.

With regard to setting up accounting standards for Islamic banks, unlike previously mentioned authors, Hashimi propounds a relatively broader view, where he begins with the objectives, and at the end proposes the underlying concepts which ought to be inherent. Hashimi’s framework can be seen in Exhibit 1.

Hashimi’s approach although it covers a wider perspective compared to those authors previously mentioned, seems to emphasise merely the interest of the user, in particular, the depositors. In other words, he state that the decision making objective is the ultimate, although not the only goal, to be achieved through presenting accounting information. His approach does not seem to pertain to anything related to accountability in the broader sense. It is also interesting to note that with regard to accounting concepts, he ranks conformity to Islamic laws, as the lowest. It is not clear, however, whether or not this ranking relates to the importance of the concepts to be grasped.

Badawi [1988] identifies seven significant differences in accounting treatment in ten Islamic banks in eight countries he surveyed. These include: revenue recognition of long-term investments; valuation of investments; foreign currency transactions; provision for investment losses, trust activities, zakat; and profit distribution. With respect to revenue recognition, particularly in
Murabaha contracts, he found two different accounting treatments being applied. Certain Islamic banks are inclined to take the whole profit at the signing of the contract, while others, recognise profit over the period of the contract. Badawi argues that the two practices are not compatible [p. 2]. For a Musharaka joint venture, he also found that in certain cases, the profit or loss of the Musharaka joint venture was recognised at the completion of the project. This may follow one of two alternative methods: the percentage of completion and the completed contract method. Again Badawi argues [p. 3] that neither of these alternatives is acceptable. However, he does not suggest a particular method to be chosen, unless his concern is about the increasing number of long term credit arrangements under Murabaha contracts and recognising the full amount of income immediately\(^2\). He asserts that “it would be creating a growing pool of non-productive assets, and possibly be distributing to an excessive extent profits before they were earned.” [Ibid].

In relation to the investment valuation, Badawi notes that investment made by most Islamic banks is normally carried out at cost. Revenue is recognised when dividends are received. He does not make any special comment on this, but nevertheless, he encourages the presentation of such investment to comply with the International Accounting Standards, as does the Bank Islam Malaysia Berhad (BIMB). Badawi also notes that BIMB is the only Islamic bank which publishes both group and bank holding company accounts [Ibid].

For foreign currency transactions, he again does not suggest any particular method. Instead, he agrees with any method suggested by the FASB No. 52, the SSAP No. 20, or the IAS No. 21. The most important thing for him is the proper disclosure of the method being applied [p. 5]. With regard to the provision for investment losses, he notes that the provision for anticipated losses is not properly disclosed by Islamic banks, and the recording is not always made as soon as the loss is identified. Badawi believes that provisions for doubtful accounts receivable should be recorded as soon as these are identified [Ibid].

In respect to the presentation of zakat and distribution of profit to depositors, he takes the view that both methods, that is assuming zakat and profit distribution as being expenses before net profit, and considering them as part of the profit distribution, are acceptable; however he encourages the harmonisation in order to facilitate comparability [Ibid]. For profit distribution between shareholders and depositors, he urges an independent auditor’s opinion to guarantee that the calculation is made properly, and that profit distribution is correctly

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\(^2\) The practices of Murabaha contracts, as the author observes, either in Bank Islam Malaysia Berhad (BIMB) or Bank Muamalat Indonesia (BMI) are always on a short terms basis. It is questionable then, when Badawi claims that such contracts are also applied on long terms bases.
calculated in accordance with the agreed formula known to both the shareholders and depositors [p. 6]. Finally, he recommends disclosure for trust activities [p. 5]

Exhibit 1: Summary of Hashimi’s Proposal of Islamic Accounting Development for Islamic Banks

Objective

- to convey information
- relevant to the needs of the users

Implementation

Identification of the User and the concepts that are considered to be relevant to the needs of the User.

- e.g. the USER may be defined as the depositor of funds in a bank. His needs may be to properly identify the profit or income of a bank, on which will be based his returns

Standards

Accounting Standards

The principles of accounting to be evolved must have the following characteristics:

Concepts

- Reliability - verifiability
- Communicability - measurability
- Practicability - true and fair
- Conformity - free from bias disclosure, simplicity, timely reporting

Cost / benefit justification

- Islamic Laws and Shariah

Source: Hashimi [1987, p.14].
Gambling and Karim [1991] are two among others who attempt to study the issue of Islamic financial reporting in considerable depth. Their opinion is, hence, noteworthy of consideration. Unlike other writers, Gambling and Karim begin their analysis initially from a methodological perspective, where they discuss two primary approaches in developing conventional accounting: empirical-inductive and empirical-deductive. They argue that neither of these can be accepted from the Islamic point of view. Instead they suggest that a normative deductive approach would be suitable [pp. 87-99].

Consequently, many of the current conventional concepts and/or principles which were developed, either through the inductive approach [eg. Grady, 1965], or the deductive approach [eg. Moonitz, 1961; Sprouse and Moonitz, 1962] must be questioned, or reconsidered carefully. The FASB which succeeded the Committee on Accounting Procedures (CAP) and the Accounting Principles Board (APB) which preferred to apply the inductive and deductive approaches respectively, has also ceased to concern itself with these approaches. Instead, it applies the ‘information-theory’ approach (which includes due process) in which the user groups may participate actively in standards setting [p. 90]. This latter approach has been claimed by many as a political process in accounting standards setting [Horngren, 1973; Solomon, 1978; Kelly-Newton, 1980, Hope and Gray, 1982] Because of that, Horngren [1981] claims that standards setting is a matter of social choice.[cf. Beaver, 1981].

With respect to Islamic accounting standards setting, Gambling and Karim take the view that “there are grounds for arguing that in the Islamic context the process of setting accounting standards would certainly be a political one, but its outcome would never be a matter of social choice.”[1991, p. 91]. The reason pointed out is that the involvement of Islamic jurists who would be expected to play an influential role in ensuring that all arguments advanced remained in conformity with the precepts of the Shari’a [Ibid].

With regard to the accounting concepts, Gambling and Karim [1991, pp. 92-3] doubt the relevance of the concept of conservatism for Islamic financial reporting. Meanwhile, conservatism has derivated the cost concept. Together with the going-concern assumption, conservatism provides a basic support for the utilization of historical costing. Moreover, the historical cost concept rationalises ideas such as objectivity, matching and realisation. One clear example of this rejection is that the valuation method of the lower cost or market which cannot be considered acceptable from the Islamic perspective. The primary reason to this objection is the application of the concept in zakat calculation. Gambling and Karim state:

Adherence to the concept of conservatism would lead to understatement of the funds that could be subject to zakah. It would not be an acceptable
practice to use one valuation for zakah calculation and another for other reporting purposes, since this would imply a division between matters of religion and business affairs. [p. 92]

The periodicity assumption, according to Gambling and Karim [p. 93] may be accepted from the Islamic point of view. However, it would be justified on totally different grounds. In the conventional accounting view, periodicity is justified on the basis that the users of financial reporting cannot wait until the end of an entity’s life [eg. Anthony and Reece, 1983; Belkaoui, 1985; Hendriksen and Breda, 1992] hence, the periodicity is adopted, although at the expense of objectivity. In comparison to the Islamic reason for periodicity in financial reporting, it is justified in order to determine the zakat obligation of the wealth, as it is required by the Shari’a.

Gambling and Karim also object to the Western theory of valuation as being acceptable to Islam. They argue instead that valuation in Islam has to be based on the Shari’a framework. “[The] Shariah framework for financial accounting would be considered as part of the social and economic systems of Islam which ultimately lead to the one goal of worshipping God in the way He prescribed.” [p. 99]. Issues of asset valuation, they added, are well established by the Shariah principles dealing with zakat. The accounting role is important in determining the amounts liable to zakat. For Gambling and Karim, “[t]his is one of the major objectives of the financial statements of Islamic organizations.” [Ibid].

In this regard, beside refusing the conventional basis of valuation, Gambling and Karim opine that a very suitable method of valuation from the Islamic point of view, would be that known as Continuously Contemporary Accounting (CoCoA) which was advocated by Chambers [1966; 1970]. Furthermore, in association with this valuation, Gambling and Karim support the shift from a revenue-expense approach to an asset-liability approach for income measurement purposes. They state that “[u]nder this latter approach, emphasis would be placed on the definition, recognition and measurement of assets and liabilities, while revenue recognition and matching principles would become less significant.” [1991, p. 101]

The entity concept from the Western accounting point of view, which separates the company and its owners, is another concept contended by Gambling and Karim as not being appropriate to the Islamic perspective. In this respect they argue:

One of the basic conditions of zakah is that it is levied on individuals who are Muslims. Entities (as such) are not liable to zakah. Instead, it is the owners who are responsible for finding out the value of their net assets at the end of the zakah period, and so become able to determine the amount
that they should pay out as zakah. The accounts should provide the information required by shareholders to fulfil that duty. Given this relationship between the owners and the organization’s assets, it would be superficial to consider the latter as having a separate personality. [p. 103].

Finally, Gambling and Karim also claim that the convention of distinguishing between economic substance and legal form, when the substance is given preference over the form, does not accord with Islamic accounting. In this respect, however, there is no precise argument being raised, unless they relate this issue generally to the practices of Western management, in particular to Joint Stock companies.

One fundamental reason raised by Gambling and Karim which enables them to refuse many Western accounting concepts and practices is the fact “that the conceptual framework of accounting currently applied in the West finds its justification in a dichotomy between business morality and private morality.” [Ibid]. In contrast to Islam, this framework guides its people through Divine revelations that govern all social, economic and political aspects of life from an Islamic perspective which does not recognise secularism. Such a dichotomy appearing in Western society is not accepted by Islam. As Gambling and Karim conclude: “Islam has its own cohesive rules which dictate how business should be run. These rules can be applied at any time and in any culture.” [p. 104].

Gambling and Karim’s work may make a significant contribution. The author agrees with many of their points views. However, with regard to accounting concepts, only some are discussed. It is not clear whether the concepts not discussed, would be automatically accepted by the Islamic viewpoint. More importantly, albeit that they have stated that zakat would be a major objective of accounting information, they do not explain the relationship between this and other objectives, if any.

With respect to Islamic accounting theory, Baydoun and Willet [1994] are concerned with accountability rather than decision-making usefulness. In this regard, they argue that two essential principles must be held: “[o]ne is the precept of full disclosure and the other is the concept of social accountability.” [p. 103]. They add that “both of these principles arise from the responsibility laid down in the Shari’a of every Muslim to society generally, the Ummah.” [Ibid].

In relation to full disclosure, they are critical of the fact that the Western framework is too restrictive. As Gray, Owen and Maunder [1988] also claim, the piecemeal rules on the provision of specific items of information in the West hardly ever amount to what would be considered full disclosure. Baydoun and Willett [1994] argue:

[the Western disclosure framework] ignores much information about the potential relationship which the accounting entity has with its wider social
environment - namely that which is contained in the activity cost data lying . . . in the larger economy. [p. 19]

As a consequence of the adherence of the above arguments, Baydoun and Willett suggest that “a value added statement (VAS) would be more in keeping with the Islamic emphasis on the duty to account to the Ummah.”[p. 20]. Amongst the additional arguments raised is that in a VAS, greater emphasis is placed upon the co-operative nature of economic activity and less on the competitive aspects. This is in line with one of a member of principles in Islamic values [eg. Kahf, 1978; Al-Sadr, 1986].

It is interesting to note that, to Baydoun and Willett, the VAS form of Islamic corporate report is not the only report to be prepared, but is rather a complement to the historical accounting report approach. They argue that this approach would provide a comprehensive coverage of reporting. They state:

... an Islamic Corporate Report should consist of multi-column financial position statement showing original and current values, a value added statement which articulates with the position statement and a funds or cash flow statement which, together with the other two statements, ‘covers’ the firm’s social activity cost database. [p. 24]

Baydoun and Willett’s suggestion may be worthwhile considering, although it pertains to a limited aspect of Islamic accounting, that is, an Islamic Corporate Report. It is not clear therefore, whether their position toward issues of some accounting concepts which have been claimed by previously mentioned authors is or is not compatible with the Islamic point of view.

An Overview of SFAs No. 1 and No. 2

The fact that the increasing numbers of Islamic banks and financial institutions established around the world, have created the need for specific accounting standards to support those banks can no longer be delayed. This need is also strongly advocated by many calls which have arisen from Muslim accountants and researchers, claiming that Western accounting standards should not be implemented without any rigorous study, whether or not they comply with the Shariah [eg. Abdel-Magid, 1981; Hashimi 1987; Badawi, 1988, ; Gambling and Karim, 1991, to mention but a few]

In response to these, intensive efforts were made on administrative and technical levels, beginning with the working paper that was presented by the Islamic Development Bank (IDB) during the annual meeting of its governor in Istanbul in March 1987. This was continued by a discussion workshop between many parties including representatives of Islamic banks and members of government regulatory bodies, accounting experts, practicing accountants and Shari’ah experts. Furthermore, many committees were formed to overlook the appro-
appropriate methods of preparing [Islamic] accounting standards. Ultimately, a Financial Accounting Organization for Islamic Banks and Financial Institutions (AAO-IFI) \(^3\) was officially established by a number of Islamic banks and financial institutions under its Agreement of Association on 29 October 1989. The Organisation was registered in the State of Bahrain on 27 March 1991 as a non-for-profit organisation. [FASB-AAOIFI, 1994, p. 131].

The AAO-IFI consists of two administrative bodies. One is the Supervisory Committee consisting of seventeen members with specialisations closely related to Islamic banks and financial institutions. Among the duties of this committee are the formation of the Financial Accounting Standard Boards, the appointment of its members, the finding of financial resources for the Organisation and the reviewing of the Board’s activities and achievements. During the first meeting, the Committee elected Dr Ahmed Mohamed Ali as its chairman. The Second body is the Financial Accounting Standards Board, which consists of twenty one members representing parties interested in financial accounting for Islamic banks and Financial Institutions, and fiqah (Islamic jurists) The Board is responsible for approving and promulgating statements of financial accounting standards for Islamic banks and financial institutions and their guidelines, for circulating such statements, for organising administrative activities related to the establishment of the organisation, and for appointing members of the Shari’a Committee and the Executive Committee for Planning and Follow-up [Ibid, p. 132].

With regard to the last two other committees mentioned above, it is stated that:

The Shari’a Committee consists of (4) fiqah who are members of the Financial Accounting Standard Board. Its function is to ensure that Shari’a precepts are complied with in the Organization’s activities and achievements. The Executive Committee for Planning and Follow-up consists of (5) members who are elected from amongst the Standards Board and its function are to organize technical work, prepare the work plan, follow up the implementation of the Board’s resolutions and prepare the issues presented to it. [pp. 132-3]

Like other accounting bodies or organisations, the AAO-IFI also applies a due process approach in order to establish pronouncements of accounting standards. In April 1993, the AAO-IFI issued three exposure drafts or draft statements, including a draft statement of “Objectives of Financial Accounting for Islamic Banks and Financial Institutions”; “Concepts of Financial Accounting

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\(^3\) The recent Organization’s letter-head states that the official name of the organization has been changed into the “Accounting and Auditing Organization for Islamic Financial Institutions” (AAO-IFI). However, no information found to as when this change is effectively applied [see also Karim, 1995]
for Islamic Banks and Financial Institutions”; and “The General Presentation and Disclosure Standard in the Financial Statements of Islamic Banks and Financial Institutions.”

After two revisions, in October 1994 those drafts were published as the Organisation’s official pronouncement entitled “Objectives and Concepts of Financial Accounting, General Presentation and Disclosure Standard, and Information about the Organization.” In the coming two sections a brief description of objectives and Concepts of Financial Accounting is discussed.

**Objectives of Financial Accounting**

This pronouncement is called the Statement of Financial Accounting (SFA) No. 1. It consists of seven chapters, including a Preface and Introduction. As with any other document, the introduction chapter covers an overall idea, or an abstraction, where some supporting quotations from the Qur’an and Hadith appear. The basic foundation of the development of objectives is discussed in paper three: “A Brief on Financial Accounting, its Processes, General Objectives and Limitations of Information Provided.” Nothing seems unique or new to this chapter compared to those are already known in the conventional accounting. For example, the financial accounting processes which commence from recognition and recording an entity’s rights (assets) and obligations, followed by measuring and recording the financial effect of consummated transactions and so forth; classifying the financial effects of consummated transactions and so forth; and ending with preparing periodic reports. [para 14]

In respect to general objectives of financial accounting, the Statement states:

*The main objective of financial accounting is to provide information, through periodic reports, about the entity’s financial position, its result of operations and cash flow, to assist users of such report in making decisions. The financial statements (statement of financial position, income statement, the statement of cash flow and related notes) are the main type of reports provided by financial accounting* [para 15].

Again the above paragraph shows that there is no significant difference between the understanding of general objectives applied by the Board and those known in conventional accounting. This similarity is also found with respect to limitations of information provided by financial accounting. The Statement, for instance, states (quoted partly):

*...financial accounting is not usually able to produce information to assist in the evaluation of the entity’s ability to achieve objectives that are not capable of financial measurement in an objective manner.* [para 17]
Financial accounting does not differentiate, through its processes, between the entity’s performance and that of its management. Accordingly, it is not currently possible for financial accounting to provide information which can assist in evaluating management performance aside from the entity’s performance. [Ibid]

The information currently provided by financial accounting is historical in nature which may or may not be indicative of the future. [Ibid].

Financial accounting relies to a very great extent on estimates when measuring the financial effect of transactions and other events . . . ; for example, depreciation of fixed assets, doubtful receivables, etc. Such estimates are based on assumptions determined by management which may or may not turn out to be accurate. [Ibid].

. . . One of the results of cost considerations is the emphasis in financial accounting on the production of financial reports of general purpose to serve the common information needs of multiple users. [para 18]

It is interesting to note that, from the beginning, an accounting concept of entity and historical [cost] seems to have been accepted. These two concepts have been widely criticised. An entity concept, for example, criticised particularly by Gambling and Karim [1991], and the historical cost concept has been objected to more widely by both Muslim scholars and non-Muslim scholars [eg. Kirkman, 1978; Chambers, 1980; Clarke, 1984; Gambling and Karim, 1991; Baydoun and Willett, 1994; Schroeder and Clark, 1995] As alluded to previously elsewhere, the criticism addressed to the historical cost concept is grounded on significant weaknesses, particularly when it is related to the need for relevant and objective information. From the Islamic point of view, one of the fundamental problems arising through applying this concept is that, in addition to the criticism arising from others, it leads a breach of fairness or ‘adalah’, particularly when implied to the zakah obligation.

Chapter four of the Statement deals with the reasons for the importance of establishing the objectives of financial accounting for Islamic banks and financial institutions, and why these objectives must be different compared to others. With respect to the rationales of importance of establishing specific objectives of Islamic banks and financial institutions, there seems nothing special other than a commonsense approach towards what the objectives ought to be. However, with regard to the differences between the objectives of financial accounting and financial reports for Islamic banks and for other entities, there is something which is important and which needs to be seen critically. It is stated initially: “Those who deal with Islamic banks are concerned, in the first place, with obeying and satisfying Allah in their financial and other dealings.” This
statement is supported by one verse quoted from the Qur’an [2:168]. Yet in the same paragraph, the document acknowledges that objectives of financial accounting and financial reports for other entities have been established in non-Islamic countries. Hence it concludes: “It is natural, therefore, that there should be differences between objectives established for other entities and those to be established for Islamic banks and financial institutions.” [para 20]. Nevertheless, the following part of the paragraph concludes:

...there are common objectives between Muslim and non-Muslim users of accounting information. For example, Muslim and non-Muslim investors share in their desire to increase their wealth and to realize acceptable returns on their investment. This is a legitimate desire which has been recognized in the Shari’a consistent with Allah’s saying “It is He Who has made the earth manageable for you, so traverse ye through its tracts and enjoy of the sustenance which He furnishes.” (Paper 67; verse 15). [para 20].

Two important points need to be noticed in the above paragraphs. First, an acknowledgment of the common objectives between Muslim and non-Muslim investors seems to be a groundless conclusion. It is contradictory to the statement in the opening paragraph of the document: “[t]hose who deal with Islamic banks are concerned, in the first place, with obeying and satisfying Allah...”. How would the objectives of information be common between Muslim and non-Muslim, while the basic philosophy life of Muslims differs to those of non-Muslims? In other words, for Muslims, to get Allah’s pleasure in any activity is always the first criterion [Qur’an 6:162], whilst for others, to maximize profit or wealth, would always be the first priority. It is worth noting that many calls have arisen recently for the accounting field to consider the social reality, accountability and environment, shows apparently that the current Western accounting objectives have not dealt with these matters sufficiently, or even still ignore them [eg. Gambling, 1974; The Accounting Standards Steering Committee, 1975; Stamp, 1980; Gray et al, 1988]

Secondly, the inclusion of the Qur’anic verse to justify the conclusion seems to be arbitrary. It is hard to understand that such a verse would be sufficient to endorse the conclusion of the common objectives between Muslims and non-Muslims with regard to information needs for decision making.

Aside from the justification made for not rejecting all the results of contemporary accounting in non-Islamic countries, Islam implicitly commands a prescriptive deductive approach [Gambling and Karim, 1992, p. 98], but the

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4 The verse is translated as follows: “O ye people! eat of what is on earth. Lawful; and good; and do not follow the footsteps of the Evil One, for he is to you an avowed enemy.” [Qur’an, 2:168].
document clearly adopt the pragmatic and/or eclectic approaches, as they have been applied in developing conventional accounting. It is proper to say then, that this part of the document contains a serious ambiguity, particularly in the methodological sense.

Chapter five of the Statement outlines the approach to establishing the objectives of financial accounting and external financial report for Islamic banks and financial institutions. At the beginning of the chapter, it is stated that two approaches emerge through discussion by the committee members:

(a) Establish objectives based on the spirit of Islam and its teaching and then consider these established objectives in relation to contemporary accounting thought.

(b) Start 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].

After testing these two approaches, it was agreed that the second approach should be adopted [para 24]. However, no sufficient reason was explicitly stated, except that both parties [a scholar expert and an accounting scholar], eventually decided the selection, that is, to apply the second approach.

It is not easy to comment on this option, because no clear reason was given. Nevertheless, two points could be noted. First, with respect to cost consideration, the second approach would be presumably less expensive than the first option. Learning from the experience of the West, for example, the establishment of such a project, particularly from a very new perspective (Islamic), would be very time-energy-and hence money-consuming. Meanwhile, many Islamic banks and financial institutions around the world are urgently waiting for this guideline. Secondly, this phenomenon may also indicate that the influence of an accounting expert who is familiar with the Western pragmatic and eclectic approach, dominates that of the Shari’a expert. It is plausible, because this is an accounting area in which accountant or accounting expert should be more easily convince other parties. In addition, the agreement to choose the second approach also indicates a

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5 A testing and selection procedure is as follows: “A Shari’a scholar was requested to prepare a working paper on the objectives of financial accounting for Islamic banks consistent with the first approach, and an accounting scholar was requested to prepare a separate working paper consistent with the second approach. In addition, a joint working paper was prepared by a Shari’a expert and an accounting expert. Several joint meetings were held to present and discuss those working papers. It was agreed that one of the Shari’a scholars who attended the meetings prepare a paper summarizing the result of those discussions and the views presented in the working papers. This last paper was presented and discussed at a meeting of the Committee attended by several Shari’a and accounting scholars. Based on the results of those efforts, it was agreed that the second approach... should be adopted to establish objectives of financial accounting for Islamic banks and financial institutions [SFA No. 1, para 24]"
preference to solve this problem in a more empirical-pragmatical manner, rather than through an idealistic-prescriptive one.

It is appropriate to raise a concern regarding the above selected approach, because it relates basically to a more fundamental aspect, that is, the methodological choice. Gambling and Karim [1991] for example have argued that, normative deductive approach would be more suitable to the Shari’ah, whilst both empirical-inductive and empirical-deductive methods are not considered appropriate.

With regard to financial report users, the Statement lists the following parties as the major users:

a) Equity holders
b) Holders of investment accounts
c) Other depositors
d) Current and saving accounts holders
e) Others who transact business with the bank, 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].

The Statement does not mention whether or not the consecutive numerical order of user groups shown above means that the higher the order the more important the group. However, looking at the commitment of those user groups to banks, particularly in the sense of the period that their funds have been invested with the bank, it seems that this is the case.

Chapter six states the objectives of accounting and financial reports for Islamic banks and financial institutions. The full citation of both financial accounting and financial reports objectives is as follows:

Objectives of financial accounting are:

a. To determine the rights and obligations of all interested parties, including those rights and obligations resulting from incomplete transactions and other events, in accordance with the principles of Islamic Shari’a and its concepts of fairness, charity and compliance with Islamic business values.

b. To contribute to the safeguarding of the Islamic bank’s assets, its rights and the rights of others in an adequate manner.

c. To contribute to the enhancement of the managerial and productive capabilities of the Islamic bank and encourage compliance with its established goals and policies, and above all, compliance with Islamic Shari’a in all transactions and events.
To provide, through financial reports, relevant information to users of those reports, to enable them to make legitimate decisions in their dealings with Islamic banks. [para 33-6].

And Objectives of financial reports:

Financial reports, which are directed mainly at external users, should provide the following types of information:

a. Information about the Islamic bank’s compliance with the Islamic Shari’a and its objectives and to establish such compliance; and information establishing the separation of prohibited earning and expenditures, if any, which occurred, and of the manner in which these were disposed of.

b. Information about the Islamic bank’s economic resources and related obligations (the obligations of the entity to transfer economic resources to satisfy the rights of its owners or the rights of others), and the effect of transactions, other events and circumstances on the entity’s economic resources and related obligations. This information should be directed principally at assisting the user in evaluating the adequacy of the Islamic bank’s capital to absorb losses and business risks; assessing the risk inherent in its investment and; evaluating the degree of liquidity of its assets and the liquidity requirements of its other obligations.

c. Information to assist the concerned party in the determination of Zakah on the Islamic bank’s funds and the purpose for which it will be disbursed.

d. Information to assist in estimating cash flows that might be realized from dealing with the Islamic bank, the timing of those flows and the risk associated with their realisation. This information should be directed principally at assisting the user in evaluating the Islamic bank’s ability to generate income and to convert it into cash flows and the adequacy of those cash flows for distributing profits to equity and investment account holders.

e. Information to assist in evaluating the Islamic bank’s discharge of its fiduciary responsibility to safeguard funds and to invest them at reasonable rates of return, and information about investment rates of return on the bank’s investment and the rate of return accruing to equity and investment account holders.

f. Information about the entity’s discharge of its social responsibilities.[para 37-42].

The Concepts of Financial Accounting for Islamic Bank and Financial Institutions

The concepts of Financial Accounting for Islamic Banks and Financial Institutions are pronounced in the Statement of Financial Accounting (SFA) No. 2. The Statement consists of nine chapters. These include: Preface; Introduction; Definition of Financial Statements; Definition of the Basic Elements of
Financial Statements; Accounting Assumptions; Accounting Recognition and Measurement Concepts; the Qualitative Characteristics of Accounting Information; Preparation and Presentation of Accounting Information; and Adoption of the Statement.

Considering the scope of this study, it seems that the most related topics of the Statement are in chapters three to eight, and in particular chapters five, six, seven and eight. Attention and a discussion is focused on those. However, related information from other chapters would be considerably deemed.

The Statement uses simultaneously the terms “assumption” and “concept.” Chapter five, for example is named “The Accounting Assumption” [emphasis added], while chapter six is entitled “Accounting Recognition and Measurement Concepts” [emphasis added]. Moreover, chapter seven introduces the term “qualitative characteristic”. Although there have been many criticisms with regard to the confusing terms applied by different parties or authors [eg. Chambers, 1964; Buckley, Kircher and Mathews, 1968; Fremgen, 1968], the Statement does not try to clarify it. In other words, there is no clear explanation given of how these terms are defined or how they relate to each other. Consequently, confusion again appears. For instance, chapter five which deals with accounting assumptions, discusses four accounting concepts.

Aside from the above vague terms, the following are discussions of assumptions, or concepts, or qualitative characteristics, recognised by the Statement. Each of these will be seen in respect of the “understanding” applied, if it is different to similars concept known in conventional accounting, and the reason used to support it.

The ‘Accounting Unit’ Concept

An understanding of this term, although not given clearly, is similar to that known in conventional accounting. The reason used to support this, emanates from Islamic Fiqh (jurisprudence) which recognises the entity as a separate unit of accountability. The examples include waqf (endowment), the Mosque and dar al-mal (treasury). It is stated: “Recent Fiqh thinking means that an Islamic bank is considered an accounting unit separate from its owners or others who have provided the bank with funds.” [para 65].

Among the consequences is that there is no objection to establishing Islamic banks with limited liability provided the public is informed. This point has also been endorsed by the Second Seminar on Stock Markets held in Bahrain 25 January, 1991, and The Islamic Fiqh Academy’ Seventh Session held in Jeddah 9 - 14 May 1992 [Note to para 67].
The ‘Going Concern’ Concept

A definition adopted for the ‘going concern concept’ is also similar to that understood in the conventional accounting. The adoption of this concept is grounded on the following:

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 bank is based on Mudaraba contracts, which are assumed to continue until there is evidence to the contrary [para 69].

Another idea supporting this concept is that of classification of wealth according to Islamic Fuqaha (Islamic Jurists). Wealth, according to Islamic Fuqaha, consists of money and goods. Furthermore, goods are divided into two categories: those that are available for sale and those that are not. The second type of goods is used for longer periods which assumes that the entity would continue in operation.

The ‘Periodicity’ Concept

A basic understanding of this concept is again similar to that perceived in conventional accounting. It perhaps may differ slightly in the sense that the Islamic calendar is based on the lunar system, while the solar or Gregorian calendar is used in conventional accounting.

A foundation for applying the periodicity concept seems to be very clear in Islam, that is, an order to fulfil a zakah obligation once a year. As the Prophet (peace be upon him) said: “No Zakah of wealth (property) until a year passes.” [this hadith is also cited in para 74]. Hence, it seems that there is no problem at all in accepting this concept of the Islamic point of view.

The ‘Stability of Purchasing Power of the Monetary Unit’ Concept

There is no indication that an understanding applied by the Statement differs to that commonly accepted in conventional accounting. In this respect, the Statement acknowledges two different schools of thought in Islamic Fiqh.

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6 This view, as it is stated in a footnote of the Statement [p. 50], is referred to by the suggestions of Abie Ubaid, Al-Amwal (Wealth), 1975 edition; Al-Qaradawi Y., Fiqh Zakah (Zakah Jurisprudence), 1977 edition; Shehata, S., Mouhasabat al-Zakah (Zakah Accounting), 1987.

7 On average, there are ten days less on between the lunar than in the solar year. This difference is also implicitly stated in the Qur'an, 18:25. [See Al-Hamsi, 1983, p. 296].
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 obligation.” [para 79].

However, there is no obvious rationale, unless it is stated in a footnote that the Islamic Fiqh Academy reviewed this issue in its meeting in Kuwait in December 1988. As a result, the Academy concluded that debt should be satisfied by an equivalent number of monetary units regardless of the change, if any, in the purchasing power of the monetary unit in order to avoid any implications of payment of *riba* [Footnote to para 79]. Based on this, the Statement decides to accept the concept.

**Recognition and Measurement**

Recognition and measurement matters are referred to in paper six of the Statement. The understanding of accounting recognition and measurement are stated as follows:

*Accounting recognition refers to recording the basic elements of financial statements. The concepts of accounting recognition define the basic principles that determine the timing of revenue, expense, gain and loss recognition in the bank’s income statement and, in turn, the basic principles that determine the timing of recognition profits and losses resulting from restricted investments in the statement of changes in restricted investments.* [para 81].

Accounting measurement refers to the amount at which assets, liabilities and, in turn, equity of the holders of unrestricted investment accounts and their equivalent and owners’ equity are recognized in the bank’s statement of financial position. It also refers to the amount at which restricted investments and, in turn, equity of the holders of restricted investment accounts and their equivalent are recognized in the statement of changes in restricted investment. Accounting measurement concepts define the broad principles that determine the amount or amounts at which those elements are recognized. [para 82].

With regard to accounting recognition and measurement, the above cited references again show no differences from those generally accepted in conventional accounting. It is worthy to note how the recognition mentioned above applies to revenue, expense and gain and loss. With regard to revenue, the Statement states that the basic principle is that it should be recognised when realised [para 82]. It is stated further that it is subject to the following conditions:

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 (e.g. 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 a reasonable degree of certainty, if not already collected. [para 83].

The conditions above clearly indicate that, with respect to revenue recognition, the Statement applies the accrual method instead of the cash basis method. This means that a recognition of revenue is made on a time basis. However, the last point of the above citation may invite a long debate, since it is not clear how to determine a ‘reasonable degree’ of revenue collectibility.

The realisation principle is also applied in expense recognition. It is applied either to the expense relating directly to the earning of revenues that have been realised and recognised, or to the period covered by the investment revenues and income statement. Accordingly, two categories of expenses are provided:

a. Expenses representing costs that provide a benefit in the current period but are not expected to provide reasonably measurable benefits in the future. Examples include management compensation and bonuses and other administrative expenses which are difficult to allocate directly to specific services performed for others by the bank or specific assets required by the bank. Accordingly, such expenses should be recognized when incurred.

b. Expenses that represent a cost incurred by the bank which is expected to benefit multiple periods. Such cost should be allocated in a rational and systematic manner to the period expected to receive the benefit. An example of those expenses is depreciation of fixed assets which represent an allocation of the cost of those fixed assets to the periods that benefit from those assets [para 84].

The above citation again clearly shows that there is no difference between those suggested by the Statement and those that have been practised in conventional accounting. The relatively similar understanding of the realisation principle is also applied to that of gain and loss recognition. Another point that may be noted here is that the implementation of the historical cost concept is accepted by the Statement.

With respect to the concept of accounting measurement, three issues are related: the matching concept; measurement attributes; and attributes that should
be measured. With regard to the matching concept, the Statement states that “[t]he bank’s net income (net loss) for a period of time should be determined by matching revenues and gains with expenses and losses that relate to that period of time in accordance with the basic principles of accounting recognition.” [para 87]. It is then asserted by the Statement that “the matching concept is supported by the Islamic concept of assigning the responsibility of the cost to the recipient of the benefit.” [Ibid].

As far as the measurement attribute is concerned, particularly with regard to assets, the Statement pronounces that it may be selected from several options which include: the acquisition cost of the asset, the net realisable or cash equivalent value of the asset as of a given date, the asset’s replacement cost as of a given date or any other attribute whose measurement would result in relevant information. Furthermore, it is said that the choice should be guided by the relevance, reliability, understandability and comparability of the resulting information [para 88]. Aside from the fact that the Statement does not pertain to a measurement for liabilities, and does not say anything as to why it leaves the choice open, or that an Islamic bank can choose among those alternatives, the spirit of the Statement seems to be similar to SFAC No. 5, [paras 67 and 70] which liberates the companies from choosing their own preferences.

The ‘attributes that may be measured’ is expanded into another four points: First, ‘the cash equivalent value expected to be realised or paid’. The cash equivalent value expected to be realised is defined as “the number of monetary units that would be realised if an asset was sold for cash in the normal course of business as of the current date” [para 89]; While the cash equivalent value expected to be paid is defined as “the number of monetary units required to settle an obligation as of the current date such as Salam⁸ or ‘Istisna’⁹ obligation.” [Ibid].

The reason why this approach is encouraged lies on the consideration that information resulting from this measurement attribute is relevant to current and prospective owners. Both current and prospective owners need information to

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⁸ Salam is defined as ‘[s]ale of a deferred commodity against a present cash price. The seller undertakes to deliver a certain commodity with defined specifications as a certain date.’ [FAO-IBFI, 1994, p. 96].

⁹ Istisna’ is defined as ‘[a] contract whereby the purchaser asks the seller to manufacture specifically defined product using the seller’s raw materials at a given price.’ [FAO-IBFI, 1994, p. 96]. It is described further: “The contractual agreement of Istisna’ has a characteristic similar to Salam in that it provides for the sale of a product not available at the time of sale. It also has a characteristic similar to the ordinary sale in that the price may be paid on credit; however, unlike Salam, the price in the Istisna’ contract is not paid when the deal is concluded. A third characteristic of the contractual agreement of Istisna’ is similar to Ijarah (employment) in that labour is required in both.” [Ibid]
evaluate the bank’s ability in achieving their investment objectives and to evaluate investment alternatives. Along with this, the ‘cash equivalent value expected to be realised or paid’ approach may provide equitable allocation of the results of unrestricted investment between account owners who have provided or withdrawn funds at different times during the lives of those investments, on the one hand, and those accounts owners as a group and equity owners on the other. Such an outcome will not be achieved if an historical cost approach, for example, is utilized. Accordingly, as the Statement concludes, this method may be applied in financial accounting for Islamic banks [see: paras 90-4].

Secondly, ‘Revaluation of assets, liabilities and restricted investments at the end of the accounting period’; The Statement argues that a periodic valuation of outstanding assets, liabilities and restricted investments is required when the cash equivalent expected to be realised or paid attribute is applied. In doing so, two qualities must always be met, that is, the resulting information must be reliable, and comparable. To achieve those, the following principles must be fulfilled:

a. To the extent available, outside indicators (such as market prices) should be considered.
b. All relevant information whether positive or negative should be utilized.
c. Logical and relevant valuation methods must be utilized.
d. Consistency in the use of valuation methods should be adhered to.
e. To the extent appropriate, experts in valuation should be utilized.
f. Conservatism in the valuation process by adhering to objectivity and neutrality in the choice of values. [para 95].

The last condition may give rise to a difficulty in practice, since it is not easy to apply conservatism, objectivity and neutrality all at once.

Thirdly, the applicability of the revaluation of assets, liabilities and restricted investments. The Statement acknowledges that the above mentioned concept will not be adopted at the present time, because “[i]t is not evident that adequate means are currently available to apply this concept in a manner that is likely to produce reliable information.” [para 96]. Due to that condition, the Statement permits the concept for the purpose of presenting supplemental information which may be relevant to an existing or a prospective holder of an investment account [para 97].

Fourthly, alternative measurement attributes to the cash equivalent value: historical cost. The historical cost approach, however, is chosen as an alternative to cash equivalent; There is no argument stated by the Statement in this respect, although in the 1993 Exposure Draft it is stated, “because historical cost is definite and verifiable”. [p. 31]. A pragmatic approach has clearly influenced this policy.
Chapter seven of the Statement is concerned with the qualitative characteristics of accounting information. According to the Statement, “the qualitative characteristics of accounting information refer to the qualities of useful accounting information and the basic principles that should be used to evaluate the quality of such information.” [para 99]. There are major qualities suggested: relevance, reliability, comparability, consistency and understandability. For a ‘relevance’ quality, there are some conditions or sub qualities needed: predictive value, feedback value and timeliness. Similarly with reliability, some other requirements are representational faithfulness, objectivity and neutrality.

Examining these qualitative characteristics, particularly with respect to its structure and understanding therein, one is sure that all of those are only a condensation, if not a replica, of the US SFAC No. 2. [FASB, 1980]. The only slight difference that may be pointed out is that one verse of Qur’an (5:8) and one hadith have been cited to endorse the qualitative characteristic of reliability and understandability respectively. [paras 115 and 120]. The other small difference, perhaps, is that there is a separation of comparability from consistency. In the SFAC No. 2, consistency is included in the comparability, while in the SFA No. 2, they are separated.

Chapter eight of the Statement deals with the preparation and presentation of accounting information. Three other concepts relate to this matter, including materiality, cost of information and adequate disclosure. The Statement argues that these concepts interrelate with each other, as well as to ‘relevance’ and ‘reliability’, two of the major concepts discussed previously in Paper seven of the Statement. For example, materiality and adequate disclosure are interrelated “because if the information is material it should be disclosed and at the same time, information that is not disclosed is presumed to be immaterial.” [para 125]. Furthermore, materiality and adequate disclosure relate to relevance and reliability because “information which is not relevant to the objectives of financial statements or which cannot be relied upon should not be disclosed.” [Ibid].

Materiality is defined by the Statement as “a state of relative importance.” [para 125]. This relates to quantitative or qualitative characteristics or a combination of both. Qualitative materiality consideration includes:

a. The inherent importance of the transaction, event or circumstance which an item reflects, eg. whether usual or unusual, expected or unexpected, recurring or non recurring, in compliance with Shari’a or not compliance with Shari’a, legal or illegal, etc.

b. The inherent importance of the item as an indicator of past or future performance including whether the item is indicative of new activities, represents substantive changes in current activities in the bank’s practices. [para 127].
Quantitative materiality considerations include:

a. The amount of the item relative to normal expectations.

b. The magnitude of the item in relation to an appropriate base. For example, income statement items in relation to net income after deducting the share of unrestricted investment accounts, or the average operating income for a number of past years; or statement of financial position items in relation to total assets, total investment accounts or owners’ equity. [para 128]

With respect to the cost of information, it is generally accepted that information is regarded as a commodity, thus it has a cost, either for the Islamic bank, or society as a whole. In this regard, the Statement asserts that “cost of information should be expected not to exceed the benefits to users to financial accounting information in their decision making either at the individual level or the society level.” [para 129]

Finally, adequate disclosure states that a financial statement should contain all material information necessary to make it useful to its users, whether it is included in the financial statements, the notes accompanying them, or in additional presentations. [para 130]. In addition, two more aspects are associated with this: optimal aggregation of accounting data; and appropriate descriptions and clarifications.

One interesting point to note is a reservation stated in Paper 9: Adoption of the Statement. It is said:

Some members qualified their assent to the adoption of the statement with respect to the provision of para 96, which does not require the revaluation of asset at their cash equivalent value at the present time, because fairness safeguarding the rights of investment account holders and owners of the Islamic banks - as a Mudarib - require the use of the expected cash equivalent value in the revaluation of assets. Furthermore the use of historical cost may cause unfairness both to holders of investment accounts and owners of the Islamic bank - as a Mudarib - if the assets appreciated or depreciated in value. The claim that it is difficult to estimate the cash equivalent value does not justify the use of other accounting measurement attributes [para 135].

As has been alluded to earlier, the majority of members of the Board were of the opinion that it is not evident that adequate means are currently available to apply the concept. It is permissible, however, to apply the concept of cash equivalent value for the purpose of presenting supplemental information. In doing so, “the management of the Islamic bank should give consideration to the broad principles for such revaluation that have been set and should disclose them. [Ibid].
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, 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 in Section two, 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]. 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.

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-AAOIFI, leads to the same conclusion. The influence of capitalist thought is hard to deny. The evi-

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10 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].
dence, 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, first11: “And I (Allah) created not the jinn 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 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 generations12 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; 7:62; 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 ‘Sada’a [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

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11 All these translations are adopted from Al-Hilali and Khan [1993].
12 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 ‘khilafah’ which means successor [Elias, 1972, p. 194].
cannot differentiate between religious and worldly activities\textsuperscript{13}. Allah is the genuine owner of everything in the heavens as well as on 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 - \textit{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\textsuperscript{14}, my living, and my dying are for Allah, the Lord of the ‘Aalamin (mankind, jinns and all that exists)"\textsuperscript{15} [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-knowner, the Almighty\textsuperscript{15}. Thirdly, as a consequence of the latter condition, ac-

\textsuperscript{13} 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.

\textsuperscript{14} This word is translated by Al-Mahisy [undated, p. 150] as ‘any kind of ibadah or worship’.

\textsuperscript{15} An interesting example may be seen when a Muslim performs his or her fasting worship. Although one is quite sure that no body can see him or her, he or she will not ever breach any
counting 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 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-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].

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16 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 payment); (g) Regulatory agencies. [para 26].

17 See a discussion regarding this in Paper III.
Based on the objectives set out 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 AAO-IFI 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.

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\(^{18}\).

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 AAO-IFI'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 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 AAO-IFI's Statement still classifies differently accounting assumptions, concepts and qualitative characteristics, though some indecisiveness cannot be avoided, as has been alluded to earlier.

\(^{18}\) 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. Whilst 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.
An understanding of qualitative characteristics may be referred to 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.” 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 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

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19 Substantially, a similar understanding of qualitative characteristics 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.
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]²⁰

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.

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 on the basis of a yearly period²². It is reported that 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...

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²⁰ 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.

²¹ Zakah, as it has been discussed elsewhere, and in particular in Paper IV, 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.

²² Obviously there are some other requirements of the zakah obligation, which include that wealth is (1) owned fully; (2) achieving 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 *Fiqhu-Zakat* by Qardawi [1973].
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 [1991] 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 pragmatic 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, 1991, p. 115]. Furthermore, all of these approaches are only temporary palliatives rather than a permanent solution to accounting problems in an inflationary or deflationary environment [Ahmed, 1991, 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, e.g. 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:

[...] the 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 [1967] 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, Hendrikse 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, 1967, 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.21

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 Hendrikse and Breda [1991, 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:

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21 From the Islamic point of view, in certain cases, there is often, if not always a rukhsat 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 pronouncing the name of Allah. It is [only] allowed in a state of emergency [see Qur’an 6:119]
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 (e.g. 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-AAOIFI as cited above, Ahmed [1991, 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 realization 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.
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-expenditure 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 Presen-
ation 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 analysis 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 [1991] 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.

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