

ACCOUNTING AND ISLAMIC WORLDVIEW

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Abstraksi:

Akuntansi adalah sistem yang mengukur aktivitas bisnis, memproses informasi itu ke laporan, dan mengkomunikasikan temuan ini untuk pengambil keputusan. Output dari proses akuntansi dalam bentuk laporan keuangan. Pelaporan keuangan adalah dokumen yang melaporkan atau individu organisasi bisnis dalam hal moneter. Proses akuntansi bergantung pada pembukuan dalam bentuk sistem double entry. Peran akuntansi adalah untuk melayani akuntabilitas dari agen (kepengurusan manajemen) terhadap pokok (pemegang saham dan pemangku kepentingan lainnya) dari kekayaan bisnis karena pemisahan kepemilikan dan kontrol dari korporasi. Stewardship akuntansi dikaitkan dengan kebutuhan mereka dalam bisnis untuk menyimpan catatan transaksi mereka, cara di mana mereka menginvestasikan kekayaan mereka dan hutang yang terhutang kepada mereka dan oleh mereka. Akuntansi juga dibentuk oleh lingkungan di mana beroperasi. Karena ini berbeda dari satu negara ke negara (karena hukum, ekonomi, politik, budaya differences) sangat beragam nasional sistem akuntansi keuangan telah dikembangkan.

Kata Kunci: Akuntansi Dan Islam

Abstract:

Accounting is the system that measures business activities, processes that information into reports, and communicates these findings to decision-makers. The output of accounting process is in the form of financial statements. Financial statements are documents that report on an individual's or organization's business in monetary terms. The accounting process relies on bookkeeping in the form of double entry system. The role of accounting is to serve the accountability of the agent (stewardship of the management) towards the principal (shareholders and other stakeholders) of the business wealth due to the separation of ownership and control of the corporation. Stewardship accounting is associated with the need of those in business to keep records of their transactions, the manner in which they invested their wealth and the debts owed to them and by them. Accounting is also shaped by the environment in which it operates. Since this differs from country to country (due to legal, economic, political, cultural etc. Differences) very diverse national financial accounting systems have developed.

Keyword: *Accounting And Islamic*

A. Introduction

Accounting is like 'the language of businesses'. The better you understand the language, the better you can manage the financial aspects of business. Financial planning, investments, loans, taxes and many other aspects of modern business activities rely critically on accounting. Accounting is the system that measures business activities, processes that information into reports, and communicates these findings to decision-makers. The output of accounting process is in the form of financial statements. Financial statements are documents that report on an individual's or organization's business in monetary terms. The accounting process relies on bookkeeping in the form of double entry system. Bookkeeping is a procedural element of accounting as arithmetic is a procedural element of mathematics.

This chapter, first, outlines the nature of accounting and its environments as an academic and professional discipline. Secondly, the chapter presents the fundamental principles of Islamic worldview that contribute towards the development of preliminary accounting theory. Finally, the chapter discusses the interaction between Islamic worldview and accounting.

B. Accounting and Its Environment

Accounting can be defined generally as "the process of identifying, measuring and communicating economic information in order to permit informed judgement by the users of information". The provision of information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the management and for making economic decisions.

The role of accounting is to serve the accountability of the agent (stewardship of the management) towards the principal (shareholders and other stakeholders) of the business wealth due to the separation of ownership and control of the corporation. Stewardship accounting is associated with the need of those in business to keep records of their transactions, the manner in which they invested their wealth and the debts owed to them and by them.

Accounting can be distinguished into two basic functions namely financial accounting and management accounting. Financial accounting provides information to people outside the firm. Creditors and shareholders, for example, are not part of the day-to-day management of the company. Likewise, government agencies such as Inland Revenue Board, and the general public are external users of a firm's accounting information.

Management accounting, on the other hand, generates confidential information for internal decision makers, such as top executives, department heads etc. This internal accounting information will be used to make decision such as to invest, to buy or sell assets, to cut spending etc. This type of information is crucial for the management of the firm.

Accounting is also shaped by the environment in which it operates. Since this differs from country to country (due to legal, economic, political, cultural etc. Differences) very diverse national financial accounting systems have developed. However, in an expanding global economy where management and investors tire increasingly making cross-border decisions, comparability of international financial information is essential. Since big multinational corpo-

rations operate in many different countries, these corporations need to comply with the accounting standards of the countries they operate in or raise finance in. This means that these corporations have to prepare financial statements according to local standards too.

Accounting standards are codified rules and guidelines of accounting principles and practices for various types of business transactions and issues. Most countries, like Malaysia have their own national standards to comply with. Their national standards usually comply with the standards issued by the International Accounting Standards Committee (IASC). IASC consists of representatives from accounting bodies from all over the world. Before 2001, the standards issued by IASC were called International Accounting Standards (IASs). Now these standards are known as International Financial Reporting Standards (IFRS). In addition, International Accounting Standards Board (IASB) is solely responsible for developing and issuing new international standards.

In the context of financial industry in Malaysia, Bank Negara Malaysia has issued guidelines on financial reporting for banks and financial institutions that deal specifically in non-performing loans and interest, and specimen financial statements for banks. Accounting and financial reporting requirements are set out in General Practice No. 8 (GP8).

Standards are compulsory for the reporting enterprises to adhere to. Statements and other pronouncements are not mandatory but where issues are not addressed in the standards then these pronouncements are to be followed. In Malaysia, standards issued by MASB were

referred to as MASB standard 1 etc. For example MASB 1 is Presentation of Financial Statements. However from January 2005 all standards issued by MASB are called Financial Reporting Standards (FRS) to be in line with the IASs. Now MASB 1 is renamed to MASB FRS 101.

MASB has issued a statement about their plans to bring Malaysia to full convergence with International Financial Reporting Standards (IFRS) by 1 January 2012. The rationale being that by becoming fully IFRS compliant, Malaysia's capital and financial market will be further enhanced as it will facilitate comparability and increase transparency. To facilitate a phased change-over to IFRS, the effective date for applying FRS 139 Financial Instruments: Recognition and Measurement will be January 2010. By 2012, all approved accounting standards applicable for entities other than private entities will converge fully with IFRS.

In addition MASB also issues Technical Releases, Statement of Principles, Urgent Issue Abstracts and Guidance Notes. These pronouncements provide guidance on the application of any particular accounting issues which are generally not covered by the accounting standards.

• **Elements of Financial Statements and the Accounting Equation**

There are five elements of financial statements namely assets, liabilities, equity, income and expenses. Assets, liabilities and equity relate to the Statement of Financial Position (Balance Sheet) while income and expenses relate to the Statement of Financial Performance (Income Statement or Profit and Loss Statement).

Assets are resources controlled by the enterprise as a result of past events and

from which future economic benefits are expected to flow to the enterprise. The economic benefits embodied in an asset have the potential to contribute directly or indirectly to the flow of cash and cash equivalents to the enterprise. Cash, inventory, receivables, land and buildings are examples.

Equities are the legal and economic claims to the assets. Equities can be categorized into 2 categories: (i) insider claims held by people inside the business (equity of shareholders or capital), and (ii) outsider claims owing to people outside the business (liabilities). The owners (i.e. shareholders) have a claim to the assets that they have invested in the business. On the other hand, a creditor who has loaned money to the business has a claim - a legal right, in fact - to a part of the assets until the business pays the debt.

Liabilities are the present obligations of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise resources embodying economic benefits.

Equities and liabilities are sources of wealth to the business and assets are the usage of wealth of the business. Thus, it leads to the following accounting equation:

$$\text{Assets} = \text{Owner's Equity} + \text{Liabilities}$$

In accounting terms, a business transaction is any event that both affects the financial position of the business entity and will be recorded. The accounting records only events with effects can be measured reliably as transactions. Any single transaction will have two effects represented by the term debit and credit. All assets have debit balance, and all

liabilities and equities have credit balance. Thus, the recording in terms of double entry system ensures that the balance sheet is always balance.

C. Islamic Worldview and Accounting

In a Muslim society, accounting should be influenced by the way the economic system is organized and the philosophy underpinning its system. The Islamic worldview are not merely derived from cultural and philosophical elements aided by science, but one whose original source is revelation, affirmed by intellectual and intuitive principles. Islam literally meaning 'peace' and 'obedience', and the adherents to Islam has to be 'obedient' to God and to appreciate the purpose of their existence in this world. God is said to have proclaimed that, 'I have only created... men that they may serve me' (al-Qur'an, 51:56). The nature of this service is taken to have been spelled out clearly when God, upon creating men, declared, "I will create a vicegerent on earth" (al-Qur'an, 2:30). Muslims consider humans to be vicegerents of God. Thus, whatever worldly possession a Muslim has is to be held in a stewardship capacity - that is simply in trust from God. According to Islam, Muslims are trustees (or stewards) for God: Man therefore agrees to assume this great responsibility in a covenant with God.

An overriding consequence of acceptance of the faith is that everything a Muslim does is to be in accordance with God's wishes as disclosed in two major sources. First, they are prescribed by the revealed words of God, in the Qur'an. Second, they are exemplified by the Sunnah, which contains God's inspired acts: sayings of the Prophet Muhammad (s.a.w.); and

descriptions of his conducts. These two sources are the material sources of Islamic law (Shari'ah). These sources is supplemented also by the ijma' - the pronouncements representing the consensus of Islamic scholars on matters not addressed explicitly by the Qur'an and the Sunnah.

The worldview of Islam encompasses both the worldly aspect and the religious aspect, in which the worldly aspect must be related in a profound and inseparable way to the religious aspect, in which the religious aspect has ultimate and final significance. The worldly aspect is seen as a preparation for the religious aspect. Everything in Islam is ultimately focused on the religious aspect without thereby implying any attitude of neglect or being unmindful to the worldly aspect.

If we examine the role of economic activities in Islam we will find that the philosophy of all human activity should be directed towards the achievement of a comprehensive human welfare in this life and also in the hereafter (falah). Falah is a tangible quality towards the achievement of God's pleasure. Human welfare as believed by Muslims can be achieved without any conflict in the genuine interest of this worldly life and the Hereafter.

To achieve falah, economic activities must be morally directed. In any economic decisions, including financial reporting upon economic activities, the ethical values should act as a norm and economic relationship must be regarded as moral relationship. The achievement of falah is neither dependent on nor related to maximization of wealth or profit nor to the size of the individual business enterprise and quantity of output. Therefore, to a profit making organization their activities should serve as

a means for them to function in the economy. The worldview should be that they provide service to the public by manufacturing and/or trading goods or providing services and in return profit is only aimed to ensure that they can operate and grow.

The concept of tawhid (unity of God) in Islam is central to Muslim belief. The basic concept establishes the thought on the premise that absolute truth (which only belongs to God) is the basis, source, and ultimate destiny for the whole universe. The universe is argued to exist for a serious purpose, and the final destiny of the universe is with God alone, who has no partner or equal.

Man is unique and God has created him and honored him with free will and responsibility over the universe on the basis of truth and justice. Following this basic principle and derived from it are the principles of the unity of creation, the unity of truth and knowledge, the unity of life and humanity, and the complimentary nature of revelation and reason.

The concept of tawhid is also directly related with another important concept, namely khilafah (vicegerent). This concept means that man is a trustee on this earth, and this requires him to act as a guardian and deputy of God in dealing with the universe and its environment, wealth, and other creatures. This also refers to the concept of wealth and the rules governing the possession and disposal of property. Man has the right to own wealth and property, and this right is protected as long as means of acquisition is lawful. The right to use and benefit from one's wealth and property must not be exercised at the expense of the interest of the community. However, this right is not absolute, since

God is the ultimate owner of all wealth. Islam advocates that human beings cannot achieve their purpose and fulfill their roles in life unless they continually act and make decisions concerning the management of their environment based on truth and justice.

In addition, Islam also developed its own concept of accountability. The concept of taklif (accountability) means that everyone is accountable for his actions or inactions on the Day of Judgment. Taklif is clearly differentiated from its non-Islamic counterparts by insisting that each person is responsible for his own deeds. Accountability in Islam also means that people must accept all the duties and liabilities as well as the benefits of any ownership or responsibility. However, neither the Prophet nor other humans have the right to decide what is right or wrong for humanity or to define the rightful behavior in life; only God can do that. If Man uses his will and ability for any purpose other than those for which they were created, he will have failed in his responsibility, violated the honor of his duties, and missed the purpose of his existence.

Accounting functions to discharge the accountability of enterprise as a result of separation of ownership and the management. The users might be shareholders, creditors, potential investors and the public. In the Muslim society, the concept of accountability is ingrained in the basic creation of man as a vicegerent of God on the earth. Man's mission on earth is to fulfill the purpose of its existence in the universe. Man is thus created as trustees and accountable for all their actions. In Islam, accounting should function not only as a service activity providing financial information to

the users and to the public at large but more important accountants should discharge their accountability by providing information to enable society to follow God's commandments.

The Muslims also believed that men are vicegerents on earth and directly are accountable for all their actions as they are only trustees of God. In terms of responsibility, the accountant in Islam is not merely responsible to human superiors, the management/client or shareholders. He/she is a servant and trustee of God in all situations, is simultaneously responsible to God the Owner of his very self and the resources he is utilizing and managing. To forget or to neglect this fundamental aspect of this responsibility is tantamount to a betrayal of divine trust with all the attending consequences in this world and in the next.

The accountant in Islam is not only required to maintain good relationship with superiors, client or the management but also maintain, improve and strengthen his relationship with his Master by fulfilling the religious obligations. In fact the relationship with the Master (Hablun Min'Allah) will determine the mode of relationship with fellow servants (Hablun Min'Anhwas). Guided by the proper relationship with God, the human accountant and public relations would then be inspired by values of truthfulness, fairness, tolerance and uprightness etc.

The accountant in Islam is motivated to provide work and excellent service because as a holder of amanah (trustee of God) on earth he must search for the bounties of God. His/Her work is a form of amal salih (virtuous deed) which is then the key for the attainment of falah (true

success in this world and in the hereafter). His/her work is also a form of ibadah (servitude to God) in so far as it is in conformity with the divine norms and values. The accountant who is imbued with the world-view of tawhid (oneness of God) is not anti profit or anti-worldly gain within the limits provided by religion. His vision of success and failure however extends beyond worldly existence to the life in the hereafter.

D. Accounting Objectives: An Islamic Perspective

The growth of Islamic financial markets and institutions, culminating in the growing interest in Islamic banking, insurance and capital market reiterates the need for different accounting requirements. Islamic accounting is needed to serve different principles of financial instruments that are founded on the Islamic worldwide and Shari'ah requirements. The efforts of Accounting and Auditing Organizations of Islamic Financial Institutions (AAOIFI) in the 1990s to develop accounting standards for Islamic financial institutions are commendable as a positive contribution towards harmonization accounting practices of Islamic financial institutions. The standards developed by AAOIFI are also expected to facilitate the needs of the users of accounting information of Islamic financial institutions who, in theory, demand different sets of information. In the light of the above development, the paper aims to introduce how the Islamic worldview and ethics influences the objectives and concepts of modern accounting and reporting. Conventionally, accounting, accounting objectives and concepts are needed to guide existing accounting practice; prescribe future

accounting practice; and define key terms and fundamental accounting issues. AAOIFI's Statement of Financial Accounting No.1 views that accounting objectives for Islamic financial institutions stemmed from the role of accounting. Since the role of financial accounting is to provide the information which users of the financial statements of Islamic banks depend on in assessing the bank's compliance with the precepts of Shari'ah, therefore, in order for the Islamic financial institutions to perform the role effectively, accounting standards need to be developed and complied with by Islamic banks. The development of such standards must be based on clear objectives of financial accounting and agreed upon definitions of its concepts.

Allah (s.w.t.) says:

"We shall set up justice scales for the Day of Judgment, not a soul will be dealt unjustly in the least. And if there be (no more than) the weight of mustard seed, we will bring it (to account); and enough are We to take account"

(Al-Qur'an Chapter 21, verse 47)

"O you who believe! When you deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing" and "Let a scribe write down faithfully as between the parties"

(Al- Qur'an Chapter 2, verse 282)

Based on the above verses we can conclude that the objectives of accounting should be to ensure fair and just financial transactions between human beings. Accounting information is expected to

require such information. However, the primary objective of accounting information must be to fulfill the ultimate accountability to Allah (s.w.t.). In addition to fulfilling the ultimate accountability to Allah (s.w.t.), the preparers of financial information must know the common information needs of users of financial reports. Common information needs of users are normally consist of the needs for information which can assist in evaluating the entity's ability in using its economic resources and fulfill its obligations. In this respect AAOIFI's SFA 2 has broaden the scope beyond just economic responsibilities to encompass information that can assist in evaluating the entity's compliance with the principles of Shari'ah and its ability to carry out social responsibilities specified by Islam.

Example 1.1

- (a) Explain the importance of the Qur'anic verse 282 of Surah AlBaqarah in the context of the theory of Islamic accounting. What are the lessons that we can benefit from the proper understanding of the verse especially for accounting policy making?
- (b) Why do you think among the objectives of accounting for Islamic financial institutions, as stipulated by AAOIFI, are to determine rights and obligations of interested parties, and to safeguard entity assets and rights of others? Illustrate your answer using the accounting examples and issues that we have already discussed in the class.

Suggested Answer:

Al-Qur'an (Al-Baqarah: 282): "O you who believe! When you deal with each

other, in transactions involving future 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 God has taught him, so let him write. Let him who incurs the liability (debtor) dictate, but let him fear his Lord God, and not diminish aught of what he owes. If the party liable (debtor) is mentally deficient, or weak, or unable himself to dictate, let his guardian dictate faithfully, and get two witnesses, out of your own men, and if they are not two men, then a man and two women, so that if one of them errs, the other can remind him. The witnesses should not refuse when they are called on (for evidence). Disdain not to reduce to writing (your contract) for a future period, whether it is small or big: it is more just in the sight of God more suitable as evidence, and more convenient to prevent doubts among yourselves. But if you carry out the transactions on the spot there is no blame if you reduce it not to writing. But take witness whenever you make a commercial contract, and let neither the scribe nor the witness suffer harm. If you do (such harm), it would be wickedness in you. So fear God; for it is God that teaches you. And God is well acquainted with all things"

(a) Lessons of SurahAl-Baqarah verse 282 for Islamic accounting policy making:

1. Proper, complete and transparent recording of financial and business transactions by responsible accountants are the fundamentals of Islamic accounting.
2. Written contract is the main requirement for all significant financial and business transactions especially for a debt contract. This is due to the obligation of one party (debtor) towards another

party (creditor), and some legal rights of the creditor over the debtor.

3. Islamic financial contracts must have at least 2 truthful witnesses to provide a check and balance mechanism, ensure proper accountability, and ensure parties of the contract properly honor their financial obligations.
4. Materiality as an accounting concept in Islam is ultimately to ensure proper recognition of the financial rights and obligations of the contractual parties.
5. Fear God (Allah) for all the contractual parties including the witnesses and the accountant to ensure fairness and justice in accounting for financial and business transactions.

Objectives of accounting for Islamic financial institutions according to AAOIFI:

1. Determine rights and obligations of interested parties to ensure fairness and justice to all contractual parties.
 - Example 1: Profit allocation using weightage to allocate profit as fairly as possible between the investors and the bank based on the Shari'ah requirements of mudharabah contract (refer Chapter 5).
 - Example 2: Profit distribution policy i.e. separate accounting investment method to fairly allocate expenses directly associated with the investment, and distribute profit to mudharabah investors by taking into consideration the Shari'ah constraints of mudharabah contract (refer Chapter 5).
2. Safeguard entity assets and rights of others to ensure proper accounting recognition (recording) and valuation of the assets to all contractual parties.

- Example 1: In the case of diminishing musharakah, the rights to the assets or project are reflected by the capital ownership. Proper accounting for musharakah is required to measure profit sharing ratio of both partners according to profit sharing ratio (PSR), and loss according to capital contribution ratio (CCR) throughout the contractual periods (refer Chapter 7).
- Example 2: In the case of murabahah, the rights of assets are transferred to the real owner. Thus, in the Bank's balance sheet, it is recorded as financing asset (i.e. receivable) to reflect the rights of the bank to receive payments from customers (refer Chapter 8).

Accounting objectives can be derived from the way one account for his or her zakat obligations. By making zakat the primary objective, in theory one tend to avoid the unwanted practices of cheating or "window dressing" because he or she believes that accountability to Allah is of utmost importance and Allah always watches him or her.

AAOIFI in its Statement of Accounting Objectives delineated two approaches to establish the objectives of financial accounting for Islamic financial institutions, i.e. first, by establishing objectives based on the principles of Islam and its teachings, and then consider these established objectives in relation to contemporary accounting thought. Secondly, we can start with objectives established in contemporary accounting thought, test them against the Shari'ah, accept those consistent with the Shari'ah and reject those that are not. AAOIFI after a lengthy deliberation has adopted the second

and more pragmatic approach to establish the objectives of financial accounting for Islamic financial institutions.

According to AAOIFI, the objectives of financial accounting should determine the type and nature of information to be included in the financial reports, in order to assist users in making their decisions. Therefore, the objectives of financial accounting should focus on the common information needs of the identified users of financial reports. The main categories of users of the external financial reports for Islamic financial institutions are as follows:

- i. Equity holders
- ii. Holders of investment accounts
- iii. Other depositors
- iv. Current and saving account holders
- v. Others who transact business with the Islamic financial institutions, who are not equity or account holders.
- vi. Zakat agencies.
- vii. Regulatory agencies.

The information needs of the above users may vary from one group to the other. There are two groups that can be considered unique and normally different from conventional finance and financial institutions. First, holders of investment account that normally mudarabah investors. Their needs are different from conventional investors or depositors due to the unique contractual conditions of the Islamic partnership contract based on mudarabah.

Secondly, zakat agencies that collect, manage and distribute zakat to the rightful beneficiaries. Islamic financial institutions have a unique responsibility towards the less fortunate members of the society. In addition paying taxation to government, Islamic financial institutions have intrinsic moral and social obligation to pay religious

"tax" as a form of commitment to comply with Shari'ah as well as part of their corporate social responsibility. Thus, these two groups of users have rights to information on the way the Islamic financial institutions fulfill its proper obligations to their investors and zakat agencies.

AAOIFI has also developed the objectives of financial accounting and financial reports for Islamic banks and financial institutions. Among the objectives of financial accounting are:

- i. To determine 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 Shari'ah and its concept of fairness, charity and compliance with Islamic business values.
- ii. To contribute to the safeguarding of the Islamic bank's assets, its rights and the rights of others in an adequate manner.
- iii. 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 Shari'ah in all transactions and events.
- iv. To provide, through financial reports, useful information to users of these reports, to enable them to make legitimate decisions in their dealings with Islamic banks.

First, the above objectives have taken into consideration the unique features of Islamic financial institutions such as prohibition of injustice, Shari'ah compliant activities and ethical business activities. Secondly, the unique contractual conditions of

Islamic financial contracts such as mudarabah, musharakah, murabahah, ijarah etc. are considered. All these instruments involve different accountings due to different conditions of financial structures of conventional finance based on interest. Thirdly, the concept of Islamic accountability through transparent financial reporting practices is clearly established in the above objectives. The accountability towards fulfilling the rights of stakeholders and the obligations of Islamic financial institutions is set as a priority.

In addition, AAOIFI has also established the objectives of financial reports as follows:

- i. Information about the Islamic bank's compliance with the Shari'ah and its objectives and to establish such compliance; and information establishing the separation of prohibited earnings and expenditures, if any, which occurred, and of the manner in which these were disposed off.
- ii. Information about the Islamic bank's economic resources and related obligations (the obligations of the Islamic bank to transfer economic resources to satisfy the rights of its owners or the right 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 users in;
 - (a) evaluating the adequacy of the Islamic bank's capital to absorb losses and business risks;
 - (b) assessing the risk inherent in its investments and;
 - (c) evaluating the degree of liquidity of its assets and the liquidity

requirements for meeting its other obligations.

- iii. Information to assist the concerned party in the determination of zakat on the Islamic bank's funds and the purpose for which it will be disbursed.
- iv. 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 realization. The 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 profit to equity and investment account holders.
- v. Information to assist in evaluating the Islamic bank's discharge of its fiduciary responsibility to safeguard fund and to invest them at reasonable rates of return, and information about investment rates of returns on the bank's investments and the rate of return accruing to equity and investment account holders.
- vi. Information about the Islamic bank's discharge of its social responsibilities.

E. Conclusion

This chapter has explained the different objectives of accounting and financial reports of Islamic financial institutions. In our case, it is a matter of religious and ethical belief among the Muslims that acting in fairness and just is a requirement of accountability to the society and ultimately

to God (Allah). Accountability in Islam encompassed a two-dimensional context, first, our horizontal accountability to fellow human beings i.e. stakeholders (hamblum minannass) on one hand, and secondly, our ultimate transcendental accountability to God (hablum minallah) on the other. This concept indicates a spiritual dimension into Muslim's beliefs that success is not only viewed in this Worldly matters but it transcends to the Hereafter. Thus, Islamic accounting can be defined as the "the process of identifying, measuring and communicating economic and other relevant information, inspired by Islamic worldview and ethics, and complies with

Islamic law (Shari'ah) - in order to permit informed judgments and decisions by potential and expected users of information - to enhance social welfare and seek mardhatillah (blessings of Allah)". This definition indicates that Islamic accounting theory and practice must reflect the Islamic worldview and values in addition to Shari'ah compliant. Islamic accounting with its valuebased framework requires different objectives of accounting and financial reporting to cater for their special features and accountability needs. The following chapters elaborate on this unique Islamic accounting requirement.

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